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BUSINESS WEEK

A McGRAW-HILL PUBLICATION FIFTY CENTS DEC. 13, 1958

McCarthy and Smith of Merrill Lynch:
As a corporation, Wall Street's innovator ends a tie with tradition.
(Money and Credit)

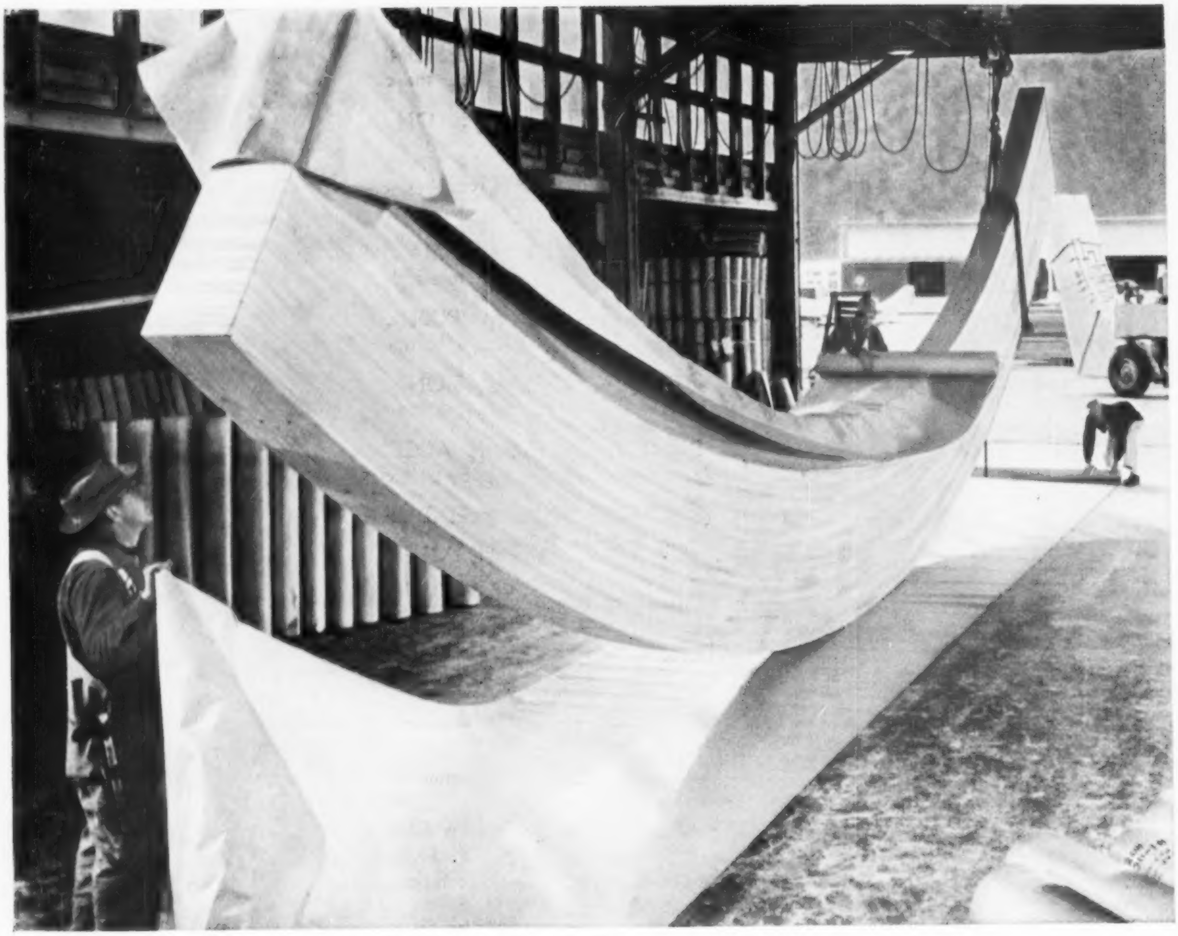


Photo courtesy American Sisalkraft Corp., Attleboro, Mass., and Timber Structures, Inc., Portland, Ore.

"One Giant Beam—and Wrap It, Please"

How would you fill such an order? Even if you had the weighty, wooden structural arch, what would you use to protect its natural beauty against the abrasion, abuse, weather and dirt encountered in shipment?

It's hard to believe, but paper does the job. Not ordinary paper, but a special reinforced, laminated type that's unusually strong, resistant to tearing or puncturing and waterproof, yet extremely pliable and surprisingly low in cost.

What makes this paper so tough and durable is its high-tensile, steellike fiber reinforcement—*and* its special, laminating adhesive, permanently plasticized with PLIOLITE LATEX.

PLIOLITE LATEX is used because of its consistent quality, its compatibility with the resins in the adhesive, its excellent adhesion, its lasting flexibility, its moisture resistance and its nonstaining qualities.

Just one of many applications for PLIOLITE LATEX is its use in adhesives. This water-dispersed rubber is continually finding its way into new products of the paper, paint and textile industries in the form of coatings, sizes, finishes and inks. For the full story on PLIOLITE LATEX, just write to: Goodyear, Chemical Division, Dept. X-9415, Akron 16, Ohio.

CHEMICAL GOOD YEAR DIVISION

COATINGS DEPARTMENT

CHEMIGUM • PLIOFLEX • PLIOLITE • PLIO-TUF • PLIOVIC • WING-CHEMICALS

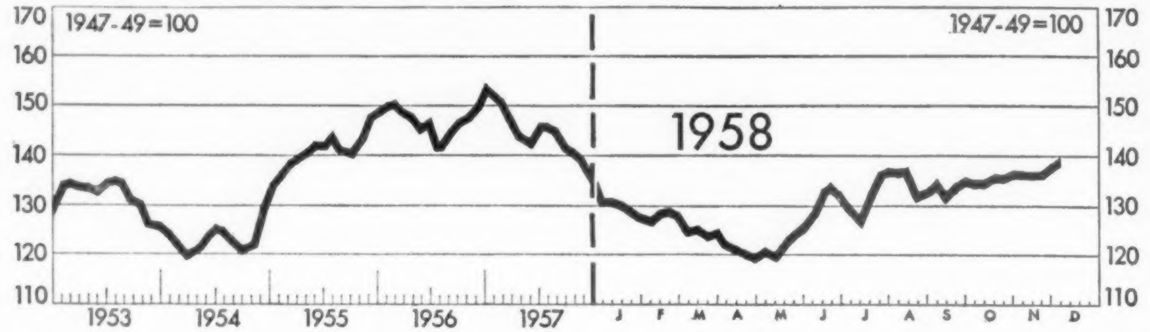
High Polymer Resins, Rubbers, Latices and Related Chemicals for the Process Industries

IN BUSINESS THIS WEEK December 13, 1958

BUSINESS WEEK is published weekly by McGraw-Hill Publishing Co., Inc., at 99 N. Broadway, Albany 1, N. Y. Entered as second class matter Dec. 4, 1936 at the Post Office at Albany, N. Y. under act of Mar. 3, 1879. Subscriptions $6 a year in U. S. A.

NUMBER 1528

FIGURES OF THE WEEK



	1946 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
BUSINESS WEEK INDEX (chart)	**91.6**	**136.3**	**137.0**	**†138.3**	***139.7**

PRODUCTION

Steel ingot (thous. of tons)	1,281	1,770	2,011	†1,985	**2,015**
Automobiles and trucks	62,880	167,761	158,138	†153,187	**177,893**
Engineering const. awards (Eng. News-Rec. 4-wk. daily av. in thous.)	$17,083	$49,501	$48,702	$58,612	**$57,657**
Electric power (millions of kilowatt-hours)	4,238	12,315	12,311	12,274	**13,017**
Crude oil and condensate (daily av., thous. of bbls.)	4,751	6,850	7,003	6,983	**7,067**
Bituminous coal (daily av., thous. of tons)	1,745	1,637	1,423	†1,488	**1,508**
Paperboard (tons)	167,269	358,322	311,196	286,263	**277,282**

TRADE

Carloadings: mfrs., miscellaneous and l.c.l. (daily av., thous. of cars)	82	62	64	61	**61**
Carloadings: all others (daily av., thous. of cars)	53	43	49	43	**41**
Department store sales index (1947-49 = 100, not seasonally adjusted)	90	170	136	169	**171**
Business failures (Dun & Bradstreet, number)	22	287	331	244	**294**

PRICES

Spot commodities, daily index (Moody's, Dec. 31, 1931 = 100)	311.9	391.1	395.9	394.2	**391.9**
Industrial raw materials, daily index (BLS, 1947-49 = 100)	††73.2	84.4	91.0	90.8	**90.0**
Foodstuffs, daily index (BLS, 1947-49 = 100)	††75.4	85.4	83.6	83.2	**82.7**
Print cloth (spot and nearby, yd.)	17.5¢	17.8¢	17.7¢	18.2¢	**18.2¢**
Finished steel, index (BLS, 1947-49 = 100)	††76.4	181.7	187.3	187.4	**187.4**
Scrap steel composite (Iron Age, ton)	$20.27	$32.00	$42.33	$40.17	**$39.83**
Copper (electrolytic, delivered price, E & MJ, lb.)	14.045¢	26.735¢	29.063¢	28.994¢	**28.950¢**
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.)	$1.97	$2.21	$1.98	$2.03	**$2.02**
Cotton, daily price (middling, 1 in., 14 designated markets, lb.)	**30.56¢	34.91¢	34.76¢	34.60¢	**34.46¢**
Wool tops (Boston, lb.)	$1.51	$1.85	$1.66	$1.65	**$1.62**

FINANCE

500 stocks composite, price index (S&P's, 1941-43 = 10)	17.08	40.96	52.66	52.54	**52.76**
Medium grade corporate bond yield (Baa issues, Moody's)	3.05%	5.08%	4.88%	4.86%	**4.84%**
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate)	¾–1%	3⅞%	3⅛%	3⅛%	**3¼%**

BANKING (Millions of Dollars)

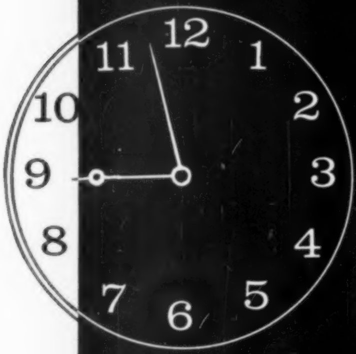
Demand deposits adjusted, reporting member banks	††45,820	55,389	56,494	†57,256	**57,214**
Total loans and investments, reporting member banks	††71,916	86,858	93,942	†95,215	**94,930**
Commercial and agricultural loans, reporting member banks	††9,299	31,573	30,444	†30,586	**30,675**
U. S. gov't guaranteed obligations held, reporting member banks	††49,879	25,619	31,522	†32,490	**32,149**
Total federal reserve credit outstanding	23,888	25,387	26,694	27,399	**27,844**

MONTHLY FIGURES OF THE WEEK

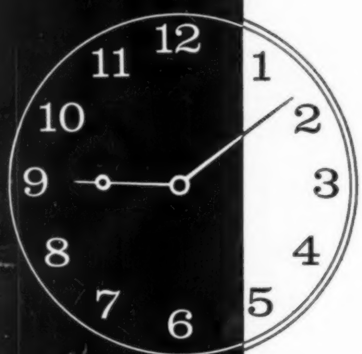
		1946 Average	Year Ago	Month Ago	Latest Month
Average weekly earnings in manufacturing	**November**	$43.82	$82.92	$84.96	**$86.58**
Wholesale prices (U. S. Dept. of Labor BLS, 1947-49 = 100)	**November**	78.7	118.1	119.0	**119.2**
Wholesalers' inventories (seasonally adjusted, in billions)	**October**	$5.5	$12.8	$12.1	**$12.1**
Retail sales (seasonally adjusted, in millions)	**October**	$8,541	$16,714	$16,562	**$16,941**
McGraw-Hill Indexes of New Orders (1950 = 100)					
New orders for machinery, except electrical (seasonally adjusted)	**October**	N.A.	125	161	**151**
Construction & mining machinery	**October**	N.A.	130	149	**159**
Engines & turbines	**October**	N.A.	119	162	**123**
Pumps & compressors	**October**	N.A.	149	193	**175**
Metalworking machinery	**October**	N.A.	91	115	**112**
Other industrial machinery	**October**	N.A.	117	135	**136**
Office equipment	**October**	N.A.	139	200	**223**
New contracts for industrial building	**October**	N.A.	117	76	**61**

* *Preliminary, week ended December 6, 1958.*
† *Revised.*
†† *Estimate.*
** *Ten designated markets, middling 15/16 in.*
§ *Date for 'Latest Week' on each series on request.*

THE PICTURES—Cover—Herb Kratovil; 26—Grant Compton; 27—(lt.) Grant Compton, (rt.) Dick Wolters; 28—W.W.; 30—U.P.I.; 45—Archie Lieberman; 54, 55— Leonard Nadel; 78, 79—Curtis J. Hoxter, Inc.; 80—Edo Koenig; 107—Eastfoto; 118—Esso Research and Engineering Co.; 124, 125—Herb Kratovil; 127—Ed Nano.



Add work space in a hurry



with CORRELATION modular furniture

Just minutes! That's all the time it takes to add more work or storage space to a modern, modular *Correlation* desk or furniture group.

Actually, *Correlation* furniture means flexibility plus! Get just what you need initially . . . or, add tops and service units to basic desks to create an endless variety of money-saving and space-saving arrangements. This flexibility, plus modern style and wide color selection, makes *Correlation* the best choice of all! • For help with your problems . . . send today for new full-color *Correlation* brochure. *Corry-Jamestown Corp., Corry, Pa.*

CORRELATION BY

STEEL AGE

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POSTMASTER . . . Please send form 3579 to Business Week, 330 W. 42nd Street, N. Y. 36, N. Y.

READERS REPORT

Poor Word Choice

Dear Sir:

I have just read the editorial concerning housing [BW—Nov.22 '58,p154] and am puzzled by the words "Hence it is desirable to replenish FNMA's funds" that appear in the second paragraph.

As the only funds of FNMA that need replenishment from time to time are the Special Assistance Functions funds, is it possible that you editorially consider it desirable for the government to provide these funds? FNMA's Secondary Market Operations have an available credit of almost $1.5-billion for further purchase of FHA and VA mortgages at the prices (discounts) it sets for mortgages of acceptable market quality. The Special Assistance purchases, like the billion dollars authorized in the last Housing Bill sponsored by Senator Sparkman, provided that the purchases be made at par for both 4¾% VA and 5¼% FHA mortgages.

HAROLD ADAMS
WASHINGTON, D. C.

• "Replenish" was a bad choice of words. We meant to indicate that we thought FNMA's Secondary Market Operations should be continued. But we definitely did not intend to endorse support of VA and FHA mortgages at par. The point of the editorial was that special legislation to needle the housing industry into excessive activity would be both unnecessary and dangerous.

South Dakota Water

Dear Sir:

In your article regarding South Dakota water supplies [BW—Oct. 25'58,p72], several assertions were made about our water supply that we would like to clarify. South Dakota is very fortunate in most areas to have tremendous supplies of water. The Missouri River development program results in huge quantities. . . . Both quantity and quality are satisfactory to adequately supply such large water consumers as steel and paper mills and refineries and chemical plants. Large areas of the state are underlain with aquifers where shallow wells can provide water supplies that are adequate for large industries . . . supplies proven by geologists, and reports are available.

There are a few areas in the

state where the dissolved solids are high and that is the reason why the water conversion plant is being installed. The 10 largest cities in the state all have water supplies with less than 600 ppm. (the per cent of solids in the water). When the state as a whole is considered, studies . . . of health indicate that 96 per cent of the urban population of the state is supplied by water sources that have less than 600 ppm.

As proof that our water does not have a harmful effect on health, we would like to cite U. S. Census Bureau figures (for the state) which show that life expectancy for men at birth ranks first and for women ranks second among all of the states. . . .

NOEL T. TWEET
INDUSTRIAL DEVELOPMENT EXPANSION AGENCY
PIERRE, S. DAK.

Dear Sir:

. . . The article in principle condemns all of the water in South Dakota as being undesirable and unhealthful. I feel quite sure that you realize the seriousness of such an error and that you have no doubt received some factual information from our state officials.

It is my purpose, therefore, not to add further burden to a problem that already exists but rather to extend a cordial invitation to you and your staff to come to Sioux Falls, enjoy a visit, and be pleasantly surprised with a very rapidly developing economy. . . .

ALLEN H. PETT
INDUSTRIAL AND DEVELOPMENT FOUNDATION
SIOUX FALLS, S. DAK.

Dear Sir:

. . . Although we recognize there may be certain areas having inadequate and improper supplies, we fear that the results of your article may provide a generalization in the minds of many people regarding this valuable resource. . . .

We are enclosing a copy of the chemical analysis of the Rapid City water supply . . .

LARRY OWEN
CHAMBER OF COMMERCE
RAPID CITY, S. DAK.

Dear Sir:

. . . In the Yankton area we are very fortunate that we are able to take our water supply for industrial and commercial use from the Missouri River. . . .

WARREN J. HOBSON
YANKTON CHAMBER OF COMMERCE
YANKTON, S. DAK.

Where are the Growth Companies Locating?

"**Healthiest business climate** in America!" That's why the growth companies, the companies that are looking to the future, are locating increasingly in Ohio—*the No. 2 state in the nation in value added by manufacture!*

The advantages are inescapable. Geographically, Ohio is a natural funnel between our two great waterway systems—St. Lawrence-Great Lakes and Ohio-Mississippi Rivers. Ohio plants benefit from inexpensive transportation, by water, to 32 of the 48 states and all markets overseas.

By land, Ohio plants can ship by truck over an expanding system of turnpikes and expressways. Complete rail and air transport facilities serve every section of the state.

Ohio plants profit from quick and easy access to water, iron ore, coal, steel, natural gas, rubber, chemicals, atomic energy.

Ohio plants can draw on a highly skilled labor pool, largely Ohio-trained in the nation's most extensive educational system.

Ohio plants benefit from a balanced economy evenly divided between industrial centers and agricultural areas. Ohio legislatures, traditionally bi-partisan, are responsive to the needs of both, subservient to neither.

Ohio plants enjoy the healthiest of business climates. Ohio employs its taxes and interprets its laws to promote profits rather than penalize them — a basic Buckeye policy that has not changed in 20 years.

Look to the future. In what state will you find your *richest* markets? From what state can you best reach the *most* markets? OHIO.

For detailed information on available industrial sites or any aspect of plant location in Ohio, write or phone Division of Economic Development and Publicity, Ohio Dept. of Commerce, Columbus 15, O.

If you're looking to the future... locate in OHIO

DOW | **Industry's chemicals**

WHAT'S MAKING NEWS?

Currently there's an abundance of news about budgets—operating budgets, marketing budgets, plant expansion budgets. But what about the "New Idea" budget? The productive executive finds he must keep abreast of new products, new applications, new processes. Finding the time is often difficult. Below are brief, informative accounts of timely events in the vital field of industrial chemistry where rapid change is commonplace. These accounts are written for fast appraisal by busy readers.

NUMBER 5

You may wish to check certain items in this advertisement and forward to those concerned in your company.

Route to:

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CHEMICAL "STOVE" CURTAILS HIGH HEAT COSTS

Modern industry uses heat at high temperatures to process everything from apple butter to zirconium. Direct fire is economical, but seldom safe; and always hard to control. Crushing pressures rule out steam for extra-high temperatures. Dowtherm® A offers none of these disadvantages, but still does the job at a figure that warms a cost accountant's heart.

The potato chip processor had a recurring nightmare in which people opened his potato chip bags and found raw or burnt potatoes instead of the evenly cooked chips that should have been there. It didn't take a psychiatrist to figure out that the dreams were caused by problems the man faced each day in his plant. These problems had to do with getting an exact amount of heat to an exact place in order to maintain cooking uniformity. His equipment, which used direct fire, was constantly needing an adjustment here and a readjustment there to maintain the proper heat relationship.

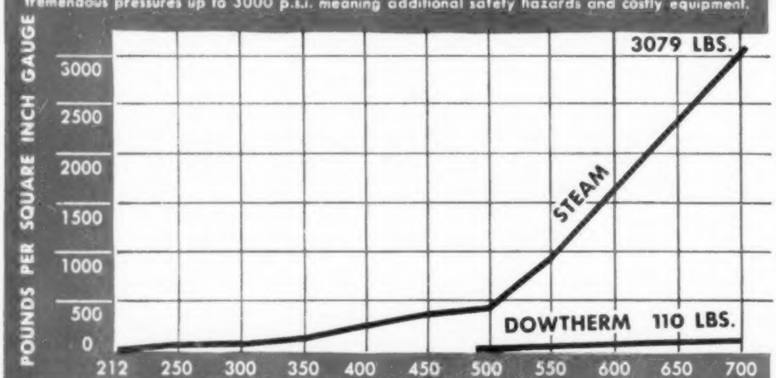
Lower costs, increased safety. The nightmares ended abruptly not long after a new system was installed utilizing liquid Dowtherm A as the heat transfer medium. Dowtherm not only provided the pinpoint heat control that direct fire couldn't, but it lowered fuel costs and reduced safety hazards as well. That was several years ago. Today, the box score for his system using Dowtherm still shows no forced shutdowns due to temperature difficulties and very little maintenance.

This case is far from an isolated one. Manufacturers and processors in all fields of industry put the benefits of Dowtherm to good use whenever they cook, distill, treat, harden, or dry. There's a mountain of technical data showing why Dowtherm has such wide and useful application, but an easier explanation is that every one of its many advantages springs from two basic characteristics: (1) Dowtherm has a super-high heat stability in the 350°F. to 750°F. temperature range permitting highly accurate heat control. (2) It transfers heat at high temperatures with much less pressure than does steam.

Lighter equipment. At 700°F., for example, steam pushes out with 3,000 lbs. of pressure against every straining square inch of equipment. Dowtherm at the same temperature exerts a pressure of only 110 lbs. per square inch. This means heavy equipment isn't needed—brings welcome savings on original equipment, maintenance and replacements.

Although changeover to Dowtherm usually requires new or modified equipment, most firms find it well worth the doing. A paint and varnish manufacturer who previously used direct fire to brew his varnishes reports his new installation for Dowtherm will be paid for in five years by savings on fire insurance premiums alone! A food processor estimates fuel savings will amortize his investment in new equipment

As temperatures increase, Dowtherm pressure remains relatively low, not over 110 p.s.i. Steam exerts tremendous pressures up to 3000 p.s.i. meaning additional safety hazards and costly equipment.



in just three years. The chemical, petroleum, food, textile, paint and varnish, metal bonding, plastics and rubber industries testify to similar savings.

New jobs for Dowtherm. Special Dowtherm products have been recently developed for tasks outside the realm of process equipment. Dowtherm SR-1 is an economical agent for thermal snow and ice removal by subsurface systems such as those used on loading docks, parking areas, and around toll plazas. Dowtherm 209 is an excellent freeze point depressant for ebullient cooled engines, such as stationary industrial gasoline engines, and permits use of waste heat.

CARPETS GET BETTER BACKING BY GUM

Methocel®, Dow's versatile synthetic gum, is currently busy with industrial tasks ranging from ceramics to cosmetics and from seed to soap. It is extensively used as a thickener for latex in the backings of rugs and carpeting. The fact that it is both water soluble and nonionic makes it a useful tool in the food industry for batters, fillings and flavors. And these same highly beneficial properties make Methocel welcome in the drug, paint, leather and paper industries as well.

Recently published Methocel information discusses these uses and introduces two new Methocel types with viscosities up to 15,000 cps. Copies are available on request.

★ ★ ★ ★

Perhaps one of the many specialized Dow chemicals can help you improve a product or speed a process. Detailed information about the chemicals discussed in this advertisement will be sent on request. Write to THE DOW CHEMICAL COMPANY, Midland, Michigan, Chemicals Sales Department 854B-1.

Dow Chemicals
Basic to Industry

Glycols, Glycol Ethers
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Benzene Derivatives
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Fumigants
Hundreds of other Chemicals
Plastics • Magnesium

THE DOW CHEMICAL COMPANY
MIDLAND, MICHIGAN

DOW

ION EXCHANGE: YOU PROFIT ON AN EVEN TRADE

The simple concept of "puttin' one in and takin' one out" has taken on a new significance in many fields of industry. Chemists and metallurgists have found they can improve products or remove impurities by substituting certain ions for an equal number of different ions. This process is called conversion by ion exchange, and it has a number of widely diversified applications.

Prevents blood clots. For example, conversion does useful jobs in the home, hospital and factory. In the home, it exchanges "hard-water" ions for "soft-water" ions. In hospitals, it exchanges sodium for calcium in blood taken for transfusion purposes. Conversion prevents clotting because calcium must be present for blood to clot. In the factory, conversion takes place with different chemical ions in the production of pharmaceuticals, thiamine, penicillin and colloidal silica for waxes and polishes.

Conversion is one of five different ways in which modern industry uses the highly versatile ion exchange process. Concentration, catalysis, fractionation and purification are the other four. Dowex® resins, Dow's brand of ion exchange beads, are often used as the exchange medium.

Other Dow chemicals in the NEWS SPOTLIGHT

DOWANOL®

Lacquers keep that new look longer because these Dow solvents control evaporation to inhibit peeling and "blushing." Write for information on letterhead.

METHYLENE CHLORIDE

Active ingredient in the better paint removers. Lifts old paint off any surface quick as a wink without the traditional fire hazard. Does an excellent job on metal or wood.

BROMINE

Dow's first product, marketed in 1897. Great granddaddy of hundreds of modern Dow chemicals that serve every industrial and scientific field.

ANTIFREEZE

Dow ethylene glycol plus special inhibitors make up a large share of the world's all-winter antifreeze. Dow produces, packages for leading firms.

matic Brain"

a  or more a mile

PENNY-A-MILE SAVINGS can be *automatic*—when your trucks have the Allison Transmission with the "Automatic Brain."

For the "brain" selects the right gear for every combination of load, grade and speed every mile of the way.

That ends costly engine lugging, shock-load damage to chassis and drive-line components, engine-disconnect clutch repairs and replacements.

Result: engine life as much as 33⅓% longer—average trip-time is reduced 18%.

And that's just the start of the savings you'll make with the Allison Automatic.

For there's a built-in retarder that saves service brakes from everything but full stops—gives you 50% longer break-lining life plus better safety records.

There's a torque converter that transmits power to tire treads with infinite smoothness for better tire mileage.

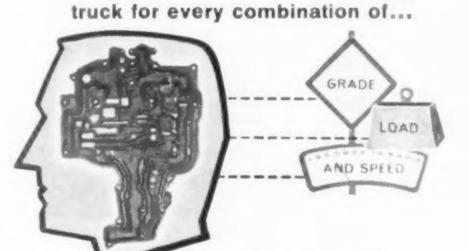
There's a direct-drive lockup in every forward gear for fuel economy.

And one of the best things about this Allison Automatic is that it cuts your driver recruitment and training problems.

Add it all up and it's easy to see how you can save at least a penny a mile—probably more—in your operation.

Interested? Check with your Chevrolet, Dodge, Ford or GMC truck dealer—or write Allison for full information.

The Allison "Automatic Brain" gears your truck for every combination of...



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Who they're good for
Why the whole idea is
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Purchasing Week

McGRAW-HILL'S NATIONAL NEWSPAPER OF PURCHASING

Vol. 1 No. 41

New York, N. Y., October 13, 1958

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$6 A YEAR U. S. AND CANADA $25 A YEAR FOREIGN

P.A.'s Hit Back

Financing Inventories To Become Tougher

Washington—The cost of borrowing money is going up. Eventually it will get tougher to obtain financing for inventory growth although bankers appear to have plenty of money for that type of borrowing now.

This is the credit outlook from a purchasing point of view over the next six months as seen by government officials specializing in finance. It stems from a drive by the Federal Reserve and Administration to halt inflation by tightening credit.

Reports from bankers around the country indicate general agreeability toward short term loans, but a growing reluctance for long term, capital goods type of borrowing already's developing but not in all areas. So far ... has not been

Public Buyers

... Steel users may find tighter inventory controls the best hedge

"Let the other fellow carry the inventory" is a well-tried business principle that is taking on added significance for many manufacturers today.

As featured in a recent issue of PURCHASING WEEK, the cost of borrowing money is going up. Over the next six months, inventory growth financing will get tougher. Even now, the publication pointed out, there's a growing reluctance by bankers to make long-term, capital-goods type loans. The newspaper concluded that interest rates, too, are heading rapidly toward the high levels reached during 1957's tight-money period.

Faced with these new complications, steel buyers may well find continuance of recession-born, modified inventory policies the best hedge against tight money and higher interest.

For example, during the recent slump many companies proved to themselves that the varied facilities of steel service centers cut costs all along the line. They avoided long-term commitments and substantially reduced their need to borrow money. They released precious working capital for more productive purposes . . . freed valuable storage space . . . reduced handling costs and cut scrap loss, interest, insurance, taxes, etc.

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BUSINESS OUTLOOK

BUSINESS WEEK

DEC. 13, 1958

A BUSINESS WEEK SERVICE

News that business spending on new plant and equipment apparently hit bottom in the third quarter (page 25) strengthens the outlook.

This is an early turnaround. In part, that may be due to the fact that the cuts were faster and deeper than in earlier prewar recessions. But it's surprising, just the same, considering today's ample capacity.

The turn, coming so soon, demonstrates very graphically the pressures on management to modernize, to cut costs.

Capital spending hit bottom at a lower level than was expected, even as recently as three months ago. The seasonally adjusted annual rate, in the third quarter, dipped a little under the $30-billion level.

That was more than half a billion below the September estimate.

That shortfall had its business impact at the time it was happening, of course. But it is water over the dam; the curve now points upward—if ever so gradually—and the direction is the thing that matters.

Businesses of all types cut their capital spending roughly $8-billion in the 12 months following 1957's third-quarter peak. But modest gains now are indicated for 1958's last quarter and 1959's first.

True, small changes in these figures can't be taken too seriously.

But, even so, it is safe to say the cuts are behind us. From a minus of $8-billion a year, we've switched to no worse than even.

Looking farther ahead, the prospects are even more gratifying. On the basis of past experience, capital spending will begin to rise fairly vigorously as recovery goes along.

By next summer, certainly, such a gain in momentum should set in.

Most manufacturers you talk to these days are less optimistic about a turnaround in capital expenditures than the estimates seem to warrant.

For this, they have some factual basis:

The turn seems to be coming later in manufacturing than nonmanufacturing lines, on the average.

The government figures place the low for manufacturers' outlays in the current quarter. Fortunately, a mild upturn (on a seasonally adjusted basis) is seen for 1959's first quarter.

Machinery producers already must have booked most of the orders involved in any early-1959 upturn in factory modernization and expansion.

And, though you may not hear much about it in lunch-table conversation, they probably have. In any event, **McGraw-Hill's index of new orders for nonelectrical machinery began to stiffen as far back as July.**

Construction of new factories—the walls and floors and roofs—may not turn up so quickly as machinery deliveries.

There is plenty of room for improvement, nevertheless. The monthly

figures on the value of work put in place on factory buildings have dropped fully 40% from their highs. In fact, they're back where they were in late 1954—without allowance for the rise in costs in these four years.

—•—

Nonfarm employment pulled even with a year ago in November—the first time in 12 months that there hasn't been a sizable gap.

And, while it is true that the comparison is with fading 1957 figures, the catch-up reflects real improvement in labor market conditions.

Here's one of the best measures of the state of the job market:

Unemployment usually rises by several hundred thousand from October to November as winter closes in on outdoor work. **This year, the count in November was virtually unchanged** at 3.8-million.

Moreover, this represented less than 6% of the labor force, if you allow for seasonal changes, as against more than 7% the month before.

Settlement of strikes (particularly in autos) and partial recovery in production from their effects helped November employment.

There was a rise of about 155,000 in factory jobs, although the month more often than not sees a small decline. And there also was a lengthening of the work week and more overtime.

It all added up to the best gains in a long while for payrolls. The average worker earned $1.62 a week more than in October and $3.66 more than a year earlier (and there were more workers).

Factory employment now has pulled back up to the best level since last January—but it won't be breaking records any time soon.

We still are more than 800,000 below this time last year.

Better employment conditions now are leading to downward revision of guesses on the unemployment total early in 1959. You're more likely to hear 4½-million the way things are going than 5-million.

—•—

Coal operators look for a better year in 1959 even though the new wage agreement is expected to force a price increase Jan. 1.

Recovery will be a help, of course. But equally, **they expect consuming industries to buy what they need next year**—whereas in 1958 they burned more than they bought by drawing on stocks.

Production, says the National Coal Assn., should reach 455-million tons. That would be a rise of almost 14% over 1958.

—•—

Electric power—coal's best customer—is closing out the year **with new production records**. Last week, the industry topped 13-billion kwh. for the first time (erasing the previous high set last August).

Moreover, the margin over a year ago is widening steadily. The gains of 5.7% in the last two weeks were the best in over a year.

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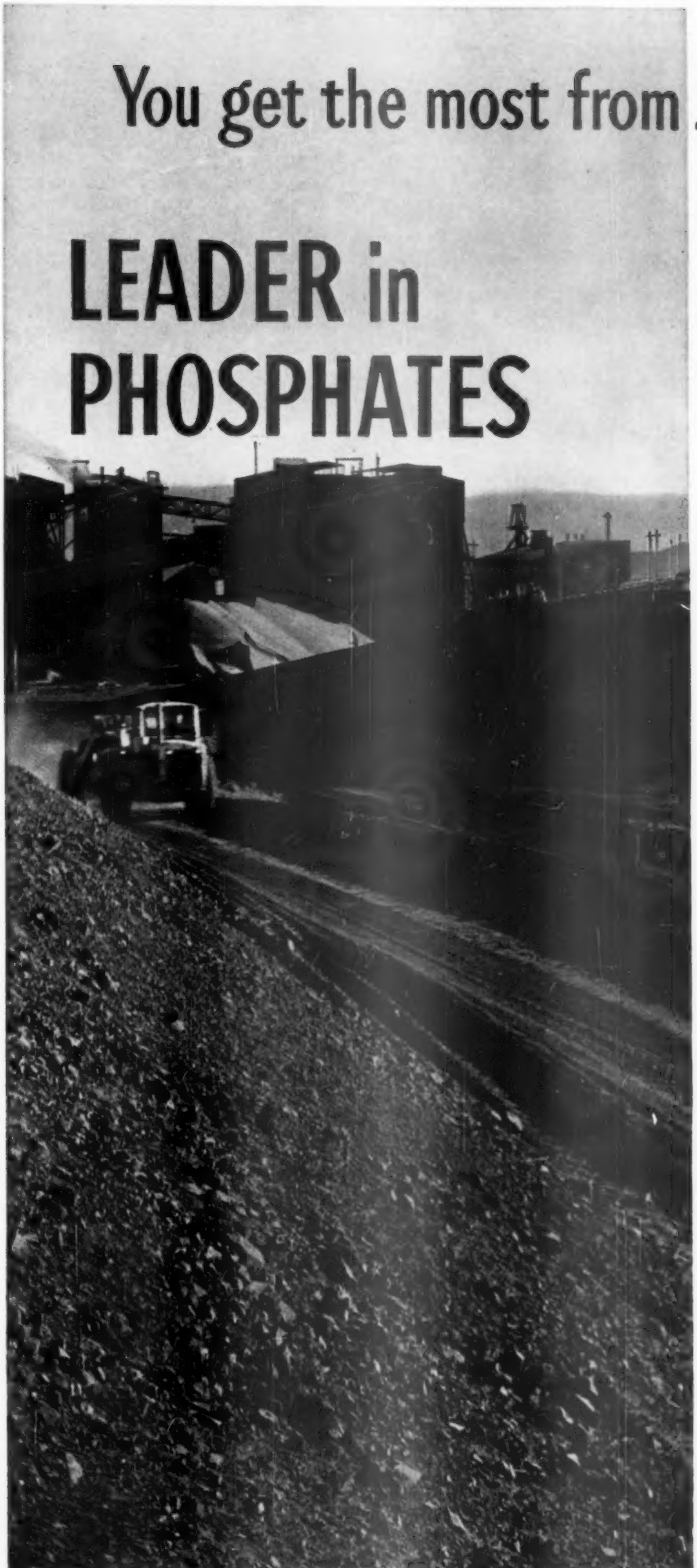

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Detroit Waits for Big Decisions

● Auto executives hang on sales figures for 1959 models to know whether to add workers—or to slow down production of automobiles.

● If a maker wants to bring out 1960s early, it's time to start the push—and the deadlines for major changes for the 1961 models are coming up rapidly.

● Finally, each big company has to get down a $100-million bet on small cars—and that can't wait too long.

Auto executives this week are like one of their cranemen out in the plant with a finger poised tensely over the switch that must be pressed at the exact moment to ease the load into an exact space. Their fingers are poised over figurative buttons that will speed up or slow down auto production, but unlike their craneman, they can't even see their target.

Dealer sales of 1959 cars in the last 10 days of November had lifted impressively from the previous 10 days—up to a daily rate of about 18,500 from barely more than 16,000. Reports for the first 10 days of December won't be complete until late next week.

Auto people know that normally sales in the last 10 days are the best of the month. They also know that for the few months following new model introductions, sales should be on an ascending curve. If things are going to go good in 1959, sales in December's first 10 days should be better than the similar period of November, and possibly as good as that 18,000-plus figure that wound up last month.

That's why Detroit has the jitters of uncertainty. On the basis of that November report, the outlook is very good, but not good enough to cause the motor makers to shed all doubt.

• **Crucial Question**—Dealers now have just about enough cars (500,000) in stock to give the market a fair test. If Dec. 1-10 sales don't seem in line with the end of November rate, some panicky fingers are likely to press the buttons to slow down production, or hold it at the present level.

Detroit is indulging in optimism to this extent: Every plant not suffering labor trouble is on overtime. Now comes the question: Do they keep going at that rate, or do they add workers to add production? It's a long time since Detroit has been so uncertain.

• **Paging the Experts**—Bruised and battered for two years in a row, industry figures seem to have lost the self-confidence that in 1955 and even in 1956 made them barely tolerant of outside opinion that Detroit didn't know all the answers on consumer tastes in cars. They have made predictions on the size of the 1959 market—about 5.5-million cars, and add or subtract as you please the 400,000-500,000 imports—but they somewhat frantically seek outside support for their estimate.

Unlike in past years, it's the usual thing now for an auto executive, when asked to assess the market, to cite forecasts by economists of universities and New York financial houses. To the observer of the Detroit scene, this smacks of industrial heresy.

But you have to have some sympathy for the beleaguered Detroit auto man. Even in a year as poor as 1958, more than 4-million people spent about half-a-year's salary on a new car and feel their money buys them also a voice in what Detroit should do. There are also more than a million people whose paychecks depend on Detroit decisions, a million or more stockholders, and the federal officials, both politicians and tax collectors, who have a stake in how well Detroit products make the cash register ring. (In the first nine months of this year, the auto industry's income tax liability alone fell about $500-million.)

• **Second Guessing**—As you pad around to the executive offices in Detroit, you hear, as never before, references to the importance of Detroit decisions to people outside that city.

Those decisions primarily concern product: What kind of cars will sell in the future? In the comfortable, gone days of 1954 and 1955, this time of year auto people were worried only about how to get the cars off the line. The current products were acceptable, and future product plans based on them were proceeding smoothly.

But executive meetings these days at the three big auto makers are concerned mostly with second-guessing 1959 cars. It's too late for fundamental changes in 1960 lines, but how about 1961? If 1959 models are only mediocre in acceptance, some very great changes must be made for 1961, and there are only a few months more in which to order them.

Similarly, if any 1959 model is a dud that should be replaced as quickly as possible by that factory's 1960 model; that decision must be made quickly.

• **$100-Million Decision**—How about the smaller cars? It's accepted now by nearly every one in the auto business that General Motors, Ford, and Chrysler will introduce cars of less than 110-in. wheelbases early next fall. But you find little enthusiasm for that kind of car in high levels of any of the Big Three.

To bring out such a car is a $100-million decision, according to one executive. Tentative "firm" decisions have been made at all three companies, and orders for components of a small car have been let at Ford and GM and probably at Chrysler, too. It's never too late to turn back from a project that has not been officially announced, but within that qualification the smaller car plans have gone past the point of no return.

The lack of enthusiasm and hesitancy is based, of course, on the imponderables of the 1959 market. There's no doubt but that smaller cars will sell well in 1959—the continued spurt of American Motors and the initial demand for Studebaker's Lark seem to take care of that point. The flap at GM, Ford, and Chrysler over smaller cars is caused by other worries.

Perhaps, muses one executive, people will buy the AMC and S-P small cars just because they are not Big Three products. No one relies so much upon market history as a 25-year auto man who remembers that there always were several hundred thousand customers for "off brands." A man such as this with a Big Three company simply can't be-

lieve that Rambler and Lark styling is what the millions want.

Another carries that wondering a bit further. Wouldn't GM, Ford, and Chrysler smaller cars simply be taking business from the other products of those same companies, he asks.

• **Medium-Priced Market**—The status and future of the so-called medium-priced cars is uppermost in the mind of another man when the subject of smaller cars comes up. Enough 1958 sales figures now are in to show that there is a medium-priced market—but whether there is a "medium-priced car" is another question.

• **Ambiguity**—The difficulty was that statisticians grew accustomed to calling the medium-priced market that part of the total sales that went to a group of cars of particular name plates. They really weren't talking about prices.

Now in Detroit there's common recognition that the medium-priced market should be defined in terms of what people pay for cars. No one has picked a precise range yet, but if you want to put the lower limit at $3,000 and the upper at $4,500, you'll find that in percentage of total auto sales there has been no marked decrease in "medium-price" penetration.

As one industry analyst sees it, sales lost in the past few years by the "medium-price makes"—Dodge, Pontiac, Mercury, Edsel, Buick, Oldsmobile, De Soto, and Chrysler—have simply shifted to Chevrolet, Ford, and Plymouth models that are medium-price in cost and just as well equipped.

So the man who links smaller cars with the medium-priced cars is thinking of those traditional name plates and what is going to happen to dealers in them if the present trend continues. He thinks the smaller cars, rather than being merchandised by Chevrolet, Ford, and Plymouth, perhaps should be running mates of the "medium-priced" models. His opinion is influenced by the fact that many of the middle-line dealers also are selling imported cars.

Many Big Three executives mull over the fundamental question about smaller cars that 1959 sales can answer: Should such cars be made at all? Suppose the U.S. products alone yield 5.5-million or more sales—which they could. Considering all things—rising economy, increasing personal income, population growth, and so on—would smaller cars for 1960 be necessary to push sales up even further?

• **Consumer Intentions**—Detroit is encouraged by the results of the consumer intentions survey (BW—Dec.6'58,p19) because of the high level of confidence consumers have about future good times. This, more than stated intentions to buy a new car, impresses auto people because they feel car buying is infectious in good times.

Sales figures up to now also are encouraging. Ford Div. is off to a start that, if maintained, could give it the best year in its history. Chevrolet, Buick, and Pontiac especially, are doing well even though—as is true with all Chrysler lines—cars have been in too-short supply to give a feel of the market. Even the Edsel, whose future Ford officials have been pondering, is thriving.

• **The Sky's the Limit**—Price resistance seems to be nonexistent, according to Detroit people. This, undoubtedly, is largely due to the price stickers on the cars, which apparently have convinced customers that there's not much point in extended haggling. Whether it's the price stickers, with their itemization of equipment, or some other factor, Detroit chart watchers note a growing awareness by customers that the real reason cars cost so much is the optional equipment they order. Along with this awareness seems to go a feeling that "O.K., I don't have to buy that doodad, but I want it so I'll have to pay for it."

Detroit is using this assumed attitude to raise another point about smaller cars. It's taken for granted that any such cars will have a delivered price of more than $2,000. On top of that would go automatic transmission, radio, heater, maybe $300 worth in all.

That could mean a $2,500 car with—the way most Americans drive—no appreciable saving in gasoline costs (maybe $5 a month) over a six-cylinder, manual shift Chevrolet, Ford, Plymouth, Rambler, or Studebaker—which possibly would cost less. Would a person who bought a "loaded" little car really be interested in economy? Would he really want to pay a premium for a smaller car just because it's smaller? And how many are there like him?

The majority of Detroit executives don't think there are very many. But odds are they'll bring out their smaller cars for, as one man says resignedly, "We're afraid the other fellow will."

Coal Pay Boost Puts Steel on Spot

Miners' wages lead over Steelworkers gains, and USW is sure to seek equalizing raises in steel's "captive" mines.

Employers may have a harder time in their gathering fight against "inflationary" wage increases as a result of the pay boost won a week ago by John L. Lewis' United Mine Workers. Now, other unions with contracts open in the next year are lifting their wage sights.

The impact of the agreement between UMW and the Bituminous Coal Operators' Assn. will be felt particularly in the important steel negotiations in the spring. A close relationship exists between the coal and steel industries. What Lewis has won in the past for the miners has often influenced United Steelworkers' bargaining demands.

• **Miners' Gains**—The 1958 bituminous contract boosts the wages of 180,000 miners $2 a day, in two steps, to $24.25 for an eight-hour day next April. Soft coal operators will raise pay $1.20 a day effective Jan. 1, the remaining 80 cents a day on Apr. 1 (BW—Dec.6'58,p30).

This is basic pay. Actually, many miners get more because they do skilled work. For instance, soft coal miners averaged $3.29 an hour and $131 a week in Illinois during October, when they put in an average 39.9 hour work week.

The new mine agreement also increases the miners' lump-sum payment for the annual two-week summer vacation shutdown from $180 to $200. It includes a "boycott" pledge by coal operators not to buy or handle coal produced by nonunion miners (page 94).

According to UMW, the total cash gain is 26¢ an hour for "inside" or underground workers, 29¢ for "outside" men. This compares with wage increases of 7¢ to 11¢ an hour—a median of about 8¢ an hour—won at bargaining tables by other unions in 1958.

• **Significance**—To put this in better prospective—UMW could have gone after a wage increase in 1957, but did not do so. Miners got an 80¢-a-day raise in April, 1957, as the second step of a $2-a-day settlement reached in October, 1956. They haven't had any increase since then.

For the record, the $2-a-day raise this year is the third such raise in a row. The union and soft coal operators also negotiated a two-step increase of $1.20 a day payable in September, 1955, and 80 cents in April, 1956. In all, the miners' day's pay has gone up $14.25 since May, 1945.

The significance for 1959 bargaining—particularly in steel—is in comparisons. At the $22.25 a day rate set in the 1956 contract, effective in April of 1957, the miners' basic pay was the highest for any mass production workers.

Further, the new coal wage increase widens the gap between UMW and USW pay to about 30¢ an hour. USW deals with some of the same employers as the Lewis union—the steel companies which operate the so-called "captive" mines. It is certain to ask for "equalizing" rates.

Business Spending Plans for Plant and Equipment

Peak of Spending — Low Point — Upturn Shows

Seasonally Adjusted at Annual Rates
Billions of Dollars

	1957 JAN.-MAR.	APR.-JUNE	JULY-SEPT.	OCT.-DEC.	1958 JAN.-MAR.	APR.-JUNE	JULY-SEPT.	OCT.-DEC. 2/	1959 JAN.-MAR. 2/
MANUFACTURING	$16.12	$16.25	$16.37	$15.27	$13.20	$11.53	$10.86	$10.79	$11.06
Durable-Goods Industries 1/	8.09	8.31	8.23	7.57	6.58	5.57	5.16	5.11	5.35
Primary Iron and Steel	1.58	1.70	1.90	1.72	1.52	1.27	1.20	1.01	1.01
Primary Nonferrous Metals	.66	.88	.89	.82	.68	.44	.35	.30	.34
Electrical Machinery and Equipment	.62	.62	.60	.58	.52	.47	.43	.40	.42
Machinery (except electrical)	1.17	1.29	1.28	1.33	1.11	.96	.84	.90	.85
Motor Vehicles and Equipment	1.36	1.27	.97	.72	.66	.63	.52	.52	.55
Transportation Equipment (excluding motor vehicles)	.58	.59	.52	.50	.43	.36	.35	.32	.37
Nondurable-Goods Industries 2/	8.03	7.94	8.14	7.70	6.62	5.96	5.70	5.68	5.71
Food and Beverages	.84	.83	.86	.87	.71	.76	.76	.74	.72
Textile-Mill Products	.46	.43	.41	.34	.30	.26	.29	.31	.29
Paper and Allied Products	.85	.86	.81	.73	.63	.58	.59	.52	.48
Chemicals and Allied Products	1.57	1.71	1.83	1.77	1.51	1.38	1.27	1.22	1.34
Petroleum and Coal Products	3.56	3.43	3.54	3.32	2.86	2.42	2.17	2.30	2.28
Mining	1.35	1.28	1.24	1.15	1.00	.92	.88	.91	.84
Railroads	1.42	1.35	1.54	1.26	1.02	.77	.63	.59	.54
Transportation (other than rail)	1.52	1.82	1.81	1.91	1.69	1.40	1.29	1.64	1.72
Public Utilities	5.72	5.93	6.64	6.43	5.87	5.97	6.10	6.32	6.41
Commercial and Other 3/	10.76	10.40	10.15	10.21	9.63	9.73	9.85	9.68	9.94
TOTAL	$36.89	$37.03	$37.75	$36.23	$32.41	$30.32	$29.61	$29.93	$30.51

1. Includes industries not shown separately: Stone, Clay and Glass, and Other Durable Goods.
2. Includes industries not shown separately: Rubber, and Other Non-durable Goods.
3. Includes Trade, Service, Finance, Communication, and Construction.

1959 to Start With a Rise

Businessmen plan to start 1959 with a small but broadly based rise in spending for new plant and equipment.

If carried out, these plans will mean the second consecutive quarterly increase since the recession low was reached in the third quarter of the year.

Spending for plant and equipment will hit a seasonally adjusted annual rate of $30.5-billion in the first quarter, businessmen reported in the latest survey conducted by the Commerce Dept. and the Securities & Exchange Commission (table). This is $900-million higher than the third quarter, and $580-million higher than a revised estimate for the fourth quarter.

• **First Surprise**—The anticipated rise in the fourth quarter, when it was first disclosed in a September survey, came as a surprise to many analysts. They had expected the dip in investment outlays to continue through 1958 and possibly into 1959. The new survey shows the fourth-quarter rise is not a fluke and may be followed by a slightly larger gain as 1959 gets under way.

While businessmen are planning increases for the future, they continue to chop their plans for current spending. Even though spending is rising, it is not gaining as fast as planned.

In a survey of intentions three months ago, for example, businessmen estimated outlays at an annual rate of $30.32-billion in the third quarter. The new survey cuts this to $29.61-billion. The previous survey estimated fourth quarter spending at $31.02-billion, and the new one drops the rate to $29.93-billion.

Manufacturing is the question mark. Its fourth-quarter outlook is the lowest since the recession began, and the modest rise anticipated in January could easily disappear.

Durable manufactured goods are showing strength, led by solid gains for nonferrous metals, building materials, and non-automobile transportation equipment. Machinery other than electrical is the only durable goods industry expecting a decline in the first quarter. But the non-durable groups are speckled with small declines. Chemicals are a bright spot: A substantial jump is expected, big enough to lift non-durables into a small rise for the first quarter.

The non-manufacturing industries are chiefly responsible for the climb out of the recession low. From an annual rate of $18.8-billion in the July-September period, they expect $19.1-billion this quarter, $19.4-billion next.

• **Airlines**—Non-rail transportation is the liveliest category, led by the airlines' rush into jets. Since the recession low in the third quarter, this industry group has increased its outlays by one third.

Public utilities show a solid increase. Electric power is holding about level at around $4.3-billion per year, but natural gas companies have chalked up a half-billion dollar rise since mid-1958.

HUNTING SCHOOL of North Carolina State is first where students actually hunt—pheasant (above), quail, deer, coon.

DOGS WERE SUPPLIED by school for various hunts—and tyro hunters could learn from them, too. Here students get demonstration on how to receive pheasant from English Pointer.

CLASSROOM LECTURES took up 15 hours of five-day course. Dr. Fred Barkalow, of North Carolina State College, is talking on management of game. From Sportsmen's Service Bureau, Jim Dee spoke on gun safety, Charles Dickie on game preserves.

GUN HANDLING took up seven hours. Fred Missildine, world professional skeet champion, is telling Mrs. G. V. Candler, Jr. how to hit moving clay targets.

Hunting Game for a Diploma

A college course with a classroom in the woods and fields, guns instead of books as its tools of learning, and the "three Gs" of guns, game, and ground cover replacing the "three Rs" of school days as subject matter—that was the lure that drew 21 sportsmen (and women) from nine states to Southern Pines, N. C., last week (pictures).

The 21—they included 17 businessmen, two professional men, and two housewives—trekked to the North Carolina Sand Hills to learn the fundamentals, or in some case the finer points, of hunting. They handed over $175 apiece for the five-day course given by North Carolina State College. But for their money they got not only room and board, but something special in instruction—the first college hunting course in which game was actually hunted and shot.

• **State Resource**—For the state of North Carolina, the course meant something special, too—a new step in developing what the state regards as one of its most valuable resources. For the state discovered a few years ago that in terms of money paid out by hunters for ammunition, dogs, guides, gasoline, hotels, and so on, its game harvest was its fifth largest "crop," topped only by tobacco, cotton, livestock, and timber.

The state treasury itself will garner an estimated $5-million this year in taxes paid by sportsmen.

That revenue has almost doubled in a decade, as hunters have taken to the woods in more frequent trips and a freer-spending mood. In 1949, North Carolina hunters spent $51 a year each. By 1955, the U.S. Interior Dept. figured, U. S. hunters were spending $91.98 apiece, for a $1-billion total that year.

North Carolina set out to get a bigger slice of this for two reasons:

• To help build up the state's poorer areas. Mattamuskeet, for example in one of North Carolina's poorest counties, boasts what many sportsmen call the best goose shooting in the U. S. Gov. Luther H. Hodges (BW—Nov.25'57,p66) says counties with the most abundant game have the poorest land and lowest per capita income.

• To provide another lure for new industry. Director Walter W. Harper, of the state's Industrial Development Administration, reports that many industrial prospects, particularly those employing lots of engineers and technicians, want to know about hunting and fishing. Pres. B. J. Lundy of Lundy Packing Co., Clinton, N. C., for example, says availability of these sports helped draw his company to the state.

• **Birth of a Course**—But North Carolina wants the "educated" hunter—and out-of-state money. That's how North Carolina State—it's a part of the state university and its campus is at Raleigh—got into the act.

Not that hunting courses as such are a novelty. Some 200 colleges (and 400

NIGHT COON HUNT is the big social event. Coon was finally treed at 4 a.m.; meantime, hunters came on five quarts of moonshine left by moonshiners who ran off, thinking hunters were revenuers—so campfire singing ended the hunt.

CLOBBERED PHEASANT is presented to class at graduation banquet by Voit Gilmore, businessman who proposed course.

high schools) now teach firearms handling. Penn State offered the first credit course in hunting (an elective in physical education); 5,000 have taken it. Others, such as Ohio State, Michigan State, New Hampshire State, followed. Still others are starting such courses as part of adult education programs.

North Carolina State made its first bid to sportsmen six years ago with a fishing course. It draws 100 a year—60% from out of state—and makes a profit. And state income from sport fishing now tops commercial fishing.

But its college sponsors got a bit of academic razzing, so kept quiet about hunting. It was Voit Gilmore, Southern Pines lumber company head, who went to the university with the idea—backed by his town's chamber of commerce.

• **A Hunting We'll Go**—Finally—with help from the state Wildlife Resources Commission, the Sportsmen's Service Bureau, and local game preserve operators—the first college hunting course with its "lab" in the woods got under way last week. Headquarters for the 21 students and eight teachers: the Howard Johnson Motor Lodge in Southern Pines.

The "students," ranging in age from 30 to 75, with an average of 52, found this was no snap course—especially the five who had never hunted before. It was out of bed at 6:30 a.m., hunting until noon, classes or trap and skeet range practice all afternoon, lectures after dinner until 10 p.m. By the end of the fifth day, even the more experienced hunters were weary—but all agreed that the 68 pheasant, 60 quail, one coon, and even the "missed" deer, were worth it, even though lack of rain in the area made it hard to find quail.

The "faculty" assembled by zoologist Fred Barkalow of North Carolina State could give practical as well as theoretical instruction. Shotgun shooting was the province of Fred Missildine of Winchester Western. Leslie Webb of Remington Arms gave instruction on types of equipment to use in hunting. When students went out in small groups to hunt, the experts walked right behind them, showing them how to recognize the dog's signal, how to shoot without crippling a bird or ruining game for the table.

The students won diplomas for their efforts—and a yen for more. All 15 out-of-state students said they expect to return for a hunting vacation. And that's what North Carolina was after.

SEC Wars on New Issue "Publicity"

SEC Chmn. Gadsby has warned the nation's investment bankers of tough new line on hoopla preceding a new stock issue.

Last week, Chmn. Edward N. Gadsby of the Securities & Exchange Commission made a speech to the annual convention of the Investment Bankers Assn. at Bal Harbour, Fla. It had a moral:

Any company that is planning to issue new securities—or that is even thinking about it—will have to watch its step with SEC from now on. Without announcing any formal change in rules, SEC has gradually broadened its definition of an "offer to sell" until it covers even such seemingly innocent things as a handout from the publicity department or a speech by the company president. And since it is illegal to make an offer to sell new securities in any way except through formal registration with SEC, a company with a new issue pending can get into trouble before it knows what hit it.

SEC's attitude toward company publicity has been hardening for more than a year (BW—Nov.23'57,p79). But the policy didn't emerge full blown until Gadsby's talk before the IBA.

Ordinarily, the atmosphere at the IBA's December convention is amiable and relaxed—a mixture of good liquor, good stories, and contented contemplation of the underwriting profits of the year just past. This year, Gadsby dumped a bucket of cold water over the assembled delegates, who represented the houses that manage, underwrite, and sell the new security issues of practically all U.S. corporations.

• **Battle Cry**—Gadsby titled his speech

EDWARD N. GADSBY

"Gun-Jumping Problems Under Section 5 of the Securities Act of 1933." That may not sound like a battle cry, but it had much the same effect on the IBA as a war whoop on the early settlers. For Section 5 of the Act of 1933 is the basic regulation that controls the sale of new securities in the U.S. And SEC's interpretation of Section 5 is one of the main things that can make life easy or tough for the investment banker.

For a starter, Gadsby reminded the IBA that Section 5 makes it "unlawful to sell a security unless a registration statement with respect to such security has become effective." And he wound up: "It is perfectly clear . . . that an issuer or underwriter is not privileged to engage in a publicity campaign prior to the filing of a registration statement. . . ."

• **What Is a Campaign?**—The big question, of course, is: What does the SEC consider a publicity campaign?

Gadsby didn't hit this point head-on by attempting a definition. But he did give some examples of what SEC considers legitimate publicity and what it regards as out of bounds.

Among the activities that are legitimate he included publishing proxy statements, sending out dividend notices, making announcements of new products.

And as a sample of what the commission intends to stop he cited the pre-registration press conference held last fall by the underwriters of the proposed stock issue of Arvida Corp. (BW—Sep.27'58,p146).

The Arvida case obviously is a sore point with the SEC. Although it allowed the registration to become effective this week, it is still pressing for legal action against the two underwriters—Carl M. Loeb, Rhoades & Co., and Dominick & Dominick—and its New York office is investigating to determine whether or not their broker-dealer registrations should be revoked.

• **Hardening**—Actually, SEC has been making life hard for companies in cases where the publicity has far less connection with the new issue than it had in the Arvida case. It has been fretting about "publicity campaigns" ever since the hoopla that accompanied the Ford offering three years ago. In October, 1957, the commission put out a special release warning Wall Street that the term "offer to sell" was broadly defined in the law, and citing various horrible examples of illegal publicity. And last March, Gadsby issued another general warning.

For the past year, SEC has followed a policy of investigating the origins of every magazine or newspaper article that concerns a company with a pro-

jected issue of securities. If the management of the issuing company or the underwriters cooperated in preparing the story—let alone initiated it—they have found themselves in trouble.

• **Latitude**—"Trouble" with the SEC is always a little hard to define because the Commission has tremendous discretionary powers in clearing new issues for sale.

The basic requirement is that any issuer of a new security must file a registration statement with SEC giving all the information that prospective investors are entitled to have—the company's earnings record, its balance sheet, the nature of its business, important contracts, engineering reports—and anything else that might affect its prospects as an investment. After filing, the issuer has to wait 20 days before the registration becomes effective and he can sell the issue. Meanwhile, SEC can raise any questions it likes and demand any additional information until the statements represent the "full disclosure" that the law requires.

Simply by asking questions, SEC can delay the registration almost indefinitely. And if an issuer is in trouble, he is likely to be astonished at how many questions the commission can ask.

• **Weapon in Reserve**—But SEC has an even more powerful weapon than that for enforcing discipline. No underwriter can tell 20 days in advance what price he should put on a particular issue—the market moves so fast that he would lose his shirt on that basis. And so it is customary for the issuers and their underwriters to file a registration statement with the price blank. This omission is filled at the last minute by an amendment specifying a price that is in line with the market. Legally, this amendment is subject to a 20-day wait, but SEC uses its discretionary power to let it become effective immediately.

By threatening to refuse acceleration on the pricing amendment, SEC can make underwriters and issuers do just about anything it wants.

• **Hampering "Full Disclosure"**—Knowing this, corporation lawyers are simply advising their companies to play it safe. If any sort of securities issue is in the wind, they counsel, keep your mouth shut tight. It's not only dangerous to initiate news stories by handouts or press conferences, it's risky to answer questions or cooperate in any way if a reporter comes to you.

The end result of all this is an odd kind of censorship, and many in the securities business point out that instead of full disclosure it produces less information about a company than would have come out naturally. Gadsby attempted to answer this argument in his Bal Harbour speech: "What the press may choose to publish with reference to financial affairs, whether fact or fancy fiction, is none of our business. . . . All that the law says is that no issue or underwriter may be a party to any publicity campaign in connection with a forthcoming, but unregistered, issue of securities. That law we intend to enforce."

• **Case History**—Business reporters already have encountered some samples of the way the new policy works in operation. In one case a major story had been scheduled and researched by BUSINESS WEEK. Two weeks before the planned publication date, the company, on advice of its counsel, urgently requested that the whole project be dropped. It had a security offering coming up, and its lawyers advised it that the only safe policy was to see to it that no articles about the company appeared in the press until after the issue was sold. Other publications have had similar experiences.

• **Firm Stand**—SEC officials admit privately that in some cases its policy may suppress legitimate news, but they give no indication of changing their stand. As Gadsby told a BUSINESS WEEK reporter, "We're going to investigate any publicity on a company before they go to market. It may turn out that the company's action was perfectly proper, but they know that we will investigate, so naturally they are going to steer clear of possible trouble. In the case you are talking about, they would have gotten a clean bill of health, but if I worked for them, I would have advised them against talking to you."

Pipelines to Resume Expansion

Supreme Court decision in Memphis case clears way for financing new projects at reasonable terms. Suppliers of pipeline equipment expect a new boom within six months.

After a year's moratorium on pipeline construction, the gas transmission industry is ready to resume its growth, to the delight of the industries that finance it and supply it with pipe and equipment.

Pipeline growth was paralyzed when a U.S. Court of Appeals decision in the so-called Memphis case (BW—Dec.28 '57,p31) cast doubt on the transmission companies' ability to pass rate boosts readily along to their customers. This in turn impaired their credit standing so badly that they could no longer afford to carry out plans for new lines.

This week the Supreme Court said that the lower court had erred in interpreting the earlier Mobile decision to mean that transmission companies could impose rate increases only with the consent of their customers, unless they went through a lengthy (years instead of months) variation of the usual Federal Power Commission procedure. The high court said the contract terms were entirely different in the two cases.

• **Go-Ahead for Expansion**—Now that the legal air is clear, FPC expects a flood of applications in the next six months to expand or build pipelines. The agency says at least four lines dropped plans for $222-million worth of construction in the past year because of the lower court decision.

One of the biggest projects that were shelved was an $87-million plan of Colorado Interstate Gas Co., Pacific Northwest Pipeline Corp., and Natural Gas Pipeline Co. of America to bring gas from Canada to the Chicago area by way of the Rocky Mountains. Since then, Colorado Interstate announced a deal with El Paso Natural Gas Co. and Pacific Northwest to deliver gas to California at a cost of $91-million.

• **Industry Cheers**—Spokesmen for the transmission companies denied that the Supreme Court decision will lead automatically to rate increases, but they cheered its effect in restoring "the set of rules we can play by." It also means that the companies can liquidate the reserves—more than $225-million, by one estimate—they had been forced to set aside for possible refunds if the decision had gone against them.

• **Suppliers Cheer**—Companies that make pipe, compressors, valves, and other equipment for pipelines are also happy at what Pres. E. B. Germany of Lone Star Steel Co. termed the "rejuvenation" of natural gas industry.

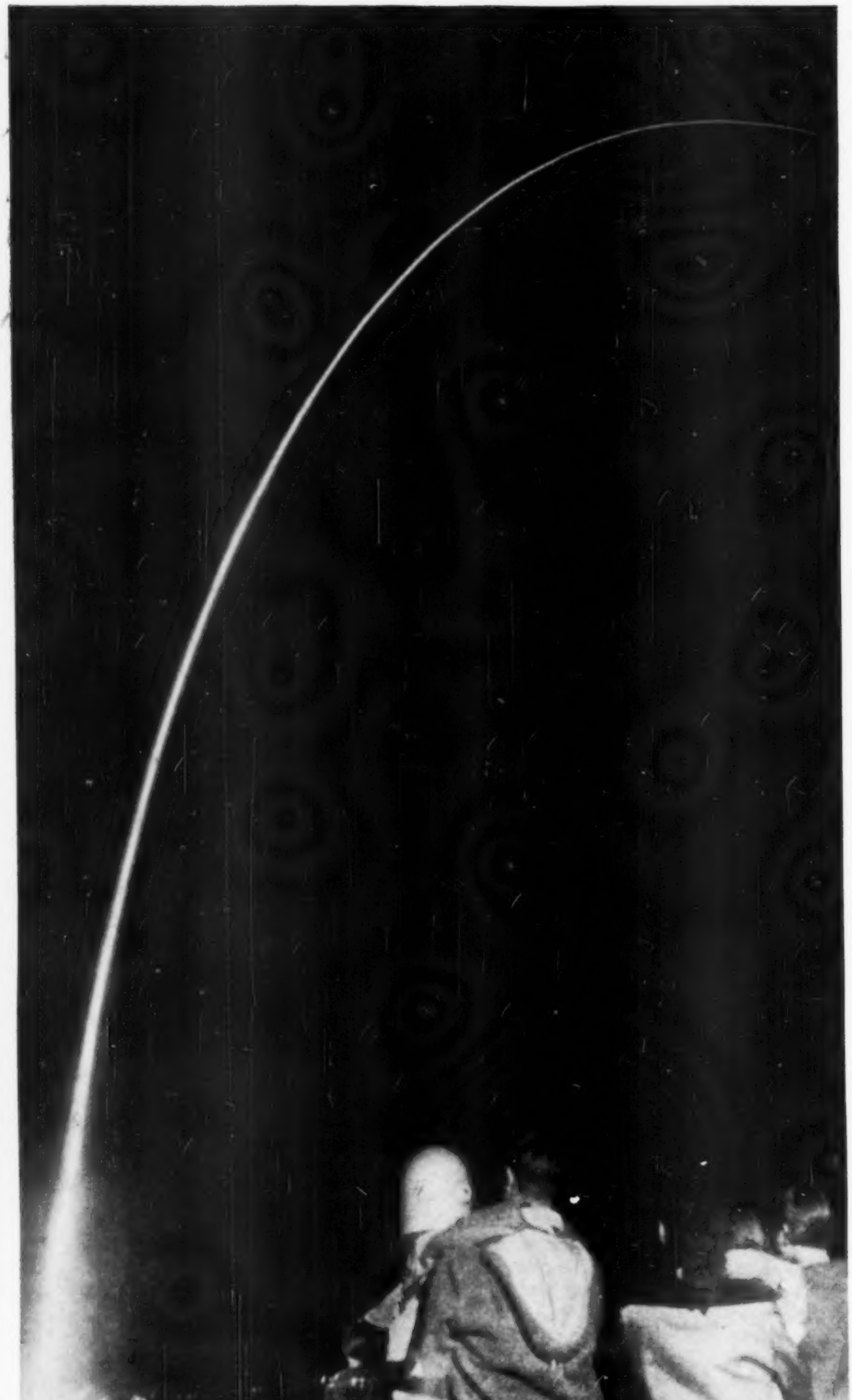
Vice-Pres. L. M. Keating of A. O. Smith Corp. of Texas, which had $250-million of its backlog wiped from its books, says it will be 30 or 60 days before the transmission lines decide their plans and six months before orders start coming in. Most important, he says: "The decision will give the industry courage to go ahead and make plans."

• **Wall Street Cheers**—There was no doubt about how investors feel about the industry's renaissance. Immediately after the Supreme Court decision was made public, "buy" orders for El Paso Natural Gas, largest of the pipeline companies, piled up so fast that trading had to be suspended on the New York Stock Exchange.

Colorado Interstate, which brokers say will benefit most from the decision, soared more than 10 points to 59 in hectic over-the-counter trading.

U.S. Steps Into Space

Both civilian and military space scientists will be firing the biggest number yet of devices to study the heavens.



MOONWARD BOUND Army Juno II streaks away from its Cape Canaveral launching pad. It fell short of target, did gather valuable data. Such sights will be increasingly frequent.

The U.S. is flexing for a massive attempt to discover the secrets of space. For more than a year, it has been building up for the effort, through planning and preliminary rocket launchings, in considerable measure in cooperation with the International Geophysical Year program. With IGY coming to an end, the nation will be on its own.

During 1959—the second full calendar year of the space age—half a dozen federal agencies and more than 50 major industrial contractors will pour close to $500-million into space studies. By 1963, the widening explorations will be costing the U.S. $1-billion to $1.5-billion a year—in addition to other billions the military will be spending to produce ballistic missiles as weapons.

• **Divided Rule**—Control of this space spending will be divided about equally between civilians (in the new National Aeronautics & Space Administration, under T. Keith Glennan) and the military (in the Defense Dept.). In theory, the new civilian space agency has wrested from the Pentagon the right to run the important space programs. In practice, it is still somewhat dependent on the services, because it has to buy from the military the hardware to launch its scientific space vehicles.

In the future, Glennan's agency will be doing more and more of its own contracting with industry for advanced space gadgetry, instead of purchasing through the services. But by that time, the Pentagon's own space projects will have progressed to a stage where they, too, will involve a lot of expensive hardware. So the military will continue to do a significant chunk of the spending on space.

The Air Force will hold the purse strings for most of the military cash going into space projects, though it will probably be subject to supervision by a Defense Dept. office such as the present Advanced Research Projects Agency. The Army will retain some of its research facilities, at least in title, but it will have less money to dispose in contracts to industry.

• **Why the Split**—There's a simple reason why both the civilians and the military will be conducting probes into space. The studies have two intertwined purposes—to acquire pure scientific knowledge and to develop new military weapons systems. The two are

Will Accelerate Next Year

so interwoven that many purely scientific details of space exploring are still veiled in official secrecy.

I. Timetable to Space

Under these various jurisdictions, though, the schedule for firing rockets into space will be vastly accelerated in 1959. There will be satellites to orbit the earth, instrumented packages to skirt the moon, and special vehicles designed to probe the outer reaches of interplanetary space.

The timetable of next year's departures for space will look like this:

January. The civilian space agency will start receiving eight more Juno II rockets from industry for space research work. Their assignments will include solar research.

February. The Army, under supervision of the civilian agency, will try for a direct hit on the moon with a Jupiter intermediate-range ballistic missile. A similar attempt last week failed to skirt the moon's surface and orbit the sun.

In the same month, the Air Force will start flight tests of North American Aviation's X-15 rocket ship with a human pilot at the controls. After being carried aloft in a B-52 bomber, the X-15 will attempt to climb to an altitude of 120 miles at 3,000 mph. The experiment will test the pilot's ability to withstand extended weightlessness and the stresses of returning to the earth's atmosphere.

Also in February, the civilian space agency starts firing the four remaining Vanguard earth satellites designed by the Navy for IGY. These souped-up versions of the original will carry instruments to measure cosmic rays, pressures, temperatures, electric currents in the ionosphere, and the impact of meteorites, as well as to conduct many other experiments.

March. The Air Force will begin its Project Discoverer from the new Vandenberg Air Force Base, on the California coast northwest of Los Angeles. This project is more to test equipment than to explore space. Satellites weighing 1,300 lb. to 10,000 lb. will be launched by modified Thor and Atlas missiles, some of them on polar orbits. The long-range goal is to launch operational reconnaissance satellites and manned space craft.

April. The civilian agency hopes to make one of several shots at Mars—the first of which could come in February if the now untried Titan rocket is ready in time. This may be part of what Glennan refers to as the Juno II program.

May. The Pentagon's space agency (ARPA) may fire a series of shots to study problems of man in space. Chimpanzees will participate in the initial experiments.

June. Under civilian auspices, a first shot at Venus is tentatively scheduled.

July. The civilian space agency has ordered eight or ten Redstone rockets for the Army's old Project Adam for sending a man into space and other general experiments.

August. The Army might be ready to tackle interplanetary probes with the Juno IV, a hot-rodded Jupiter C.

October. The Air Force will enlarge its Project Discoverer to the maximums planned. The program will include the Air Force's weather satellite.

• **Broadest Scope**—Of all the space tests planned for 1959, Project Discoverer, handled by the Air Force for ARPA, is the most comprehensive. It brings together almost all space research connected with the development of weapons systems. The principal contractor for the first few Discoverer satellite launchings is Lockheed Aircraft Corp., but the program also involves about 25 other contractors, including North American Aviation, General Electric, Burroughs, and Space Technology Laboratory.

II. Bureaucratic Tangle

One worry clouding the ambitious future of space projects is the fear of many observers that bureaucratic rivalries may cause delays. Despite Congressional attempts to speed space programs, organization of the space projects is still seriously cluttered.

Inside the Pentagon, for instance, the Army and Air Force are both at odds with the Advanced Research Projects Agency—which was created specifically to direct and coordinate all military space projects. Its staff of about 40 scientists and engineers allocates money to the services, which then award contracts and monitor the projects. The final say-so is supposed to stay with ARPA. Nevertheless, debate is still raging over who controls such key projects as the Army's anti-missile missile and the Air Force's X-15, Dyna-Soar orbital bomber, Sentry reconnaissance satellite, and Rover nuclear rocket.

• **Presidential Compromise**—An even stickier squabble arose when the civilian space agency tried to take over the Army's rocket and space research centers (BW—Oct.25'58,p29). Last week, Pres. Eisenhower stepped in to settle the tiff with a compromise that satisfied very few of the bureaucrats.

Under the new setup, the Army's Jet Propulsion Laboratory at Pasadena, Calif., goes to civilian control. The labs of the Army Ballistic Missile Agency at Huntsville, Ala., remain an Army installation in name. But the facilities will be subject to the civilian agency's requirements. Since the Pentagon has so drastically diminished the Army's role in missile and space programs, this means that, in effect, the Huntsville labs will be increasingly dependent on the civilian body for both projects and funds.

III. Playing All the Cards

As the space program nears its busiest year yet, though, it does enjoy some new advantages.

By now, almost all the necessary equipment is on hand. If scientists had to develop new rockets, new fuels, and new monitoring gear, it would obviously be impossible to complete even part of the proposed timetable. But by now all the requisite rocket hardware has been fully tested except for Titan and one or two modified rocket forms.

• **New Course**—Other benefits will come from activation next week of the new Pacific Missile Test Range, stretching out from the new Vandenberg base in California. It will ease the bottlenecks in securing range time at Cape Canaveral, Fla., for tests. And the new launching site will be handily close to Space Technology Laboratories in Inglewood, Calif.—the manager for the Air Force of the Atlas, Titan, and Thor missiles. In the past, every bug discovered at Canaveral in one of these systems had to be assessed in California.

The Vandenberg base will also enable the Air Force to launch baby moons along a polar orbit almost immediately. From Canaveral, it's possible to fire only south-southeast, because of geography and politics. From Vandenberg, the whole expanse of the Pacific is available for monitoring stations and the like, and the scientists can try for a shot over the poles without sending their rockets over any heavily populated land mass.

• **All at Once**—The one outstanding characteristic of the impending space studies is that, at the moment, the U.S. is trying to get the most out of every possible avenue instead of organizing the exploration step-by-step. One space scientist sums up the approach this way: "When you're running behind and don't even know how far the opposition is ahead of you, you use everything you've got. There's no such thing as a space shot failure if we get some information back. At this stage of the game, every bit of additional research knowledge helps."

No Signs of Another Boom

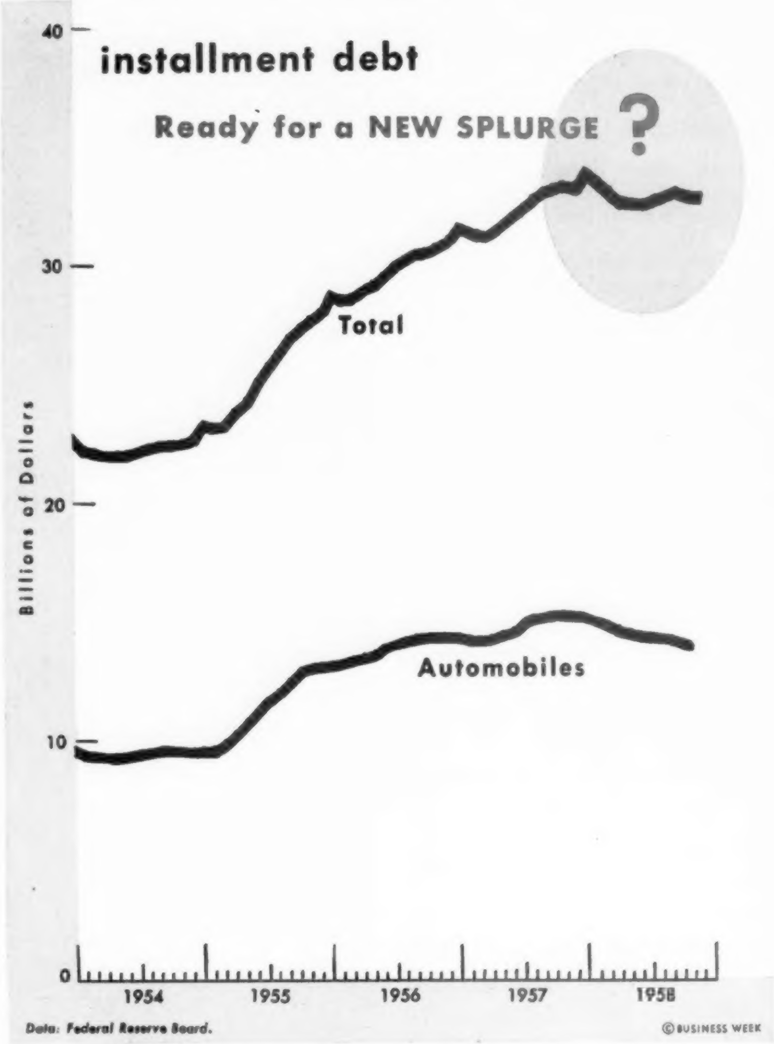
Right now, there are no strong signs that U.S. consumers are ready to go deeper into hock to buy the goods that they have steadily refrained from buying during the year.

About the best you can get is from the president of Budge Finance Co. in Los Angeles, who puts it this way: "The consumer is like a snail coming out of his shell now. He is doing it, but it is a cautious emergence."

Yet this at a time when the economy, by all counts, is poised for what should be a decided upturn in consumer credit. This is the time of year when installment credit bulges for the Christmas buying season. Besides, business generally is turning up. More people are working and with longer hours of pay.

Most specifically, consumers themselves appear to be in the best position in months to add to their installment debt. They've been paying off the record load of $34.1-billion that they were carrying at the end of 1957. Each and every month this year from January through October, extensions of installment credit have fallen behind the like month in 1957. In six of the 10 months, repayments exceeded extensions, resulting in a net repayment of over $1-billion.

All of this debt liquidation adds up to this: For the first year in the postwar period, total outstanding installment debt—which makes up more than 70% of total consumer credit—has fallen below the previous year. The chart illustrates what has happened.



• **No Exuberance**—Nevertheless, little December exuberance showed up this week, when BUSINESS WEEK reporters around the country checked stores, auto dealers, banks, and finance companies for indications of a reversal of this credit decline. Such a turn could signal a real upswing in the important hardgoods industries—automobiles, appliances, and household goods.

For the most part, businessmen generally agree with the analogy of the snail. But from coast to coast, BUSINESS WEEK found little evidence that the consumer is on the verge of a credit spree. A Boston banker sums up this outlook: "We don't see any unusual demand for credit. We seem to be bumping along sideways."

Credit handlers see nothing like the upsurge in consumer debt that accompanied the end of the 1954 recession. At that time, there were distinct signs of rapid debt expansion in the late fall of 1954. From July of that year through October, outstanding installment debt rose a quarter-billion dollars, including a gain of $46-million in auto loans. The rate of gain was sharper in December, and 1955 brought a sensational increase of more than $6-billion—the all-time record auto sales year.

This year, the installment figure has fallen $22-million since July. Sagging automobile sales get the entire blame. Outstanding auto debt has fallen $403-million in the last half, offsetting a gain of $381-million in other installment paper.

Thus the question remains whether the economy can expect the boost from increased consumer hardgoods debt in the coming year that it experienced after the last recession.

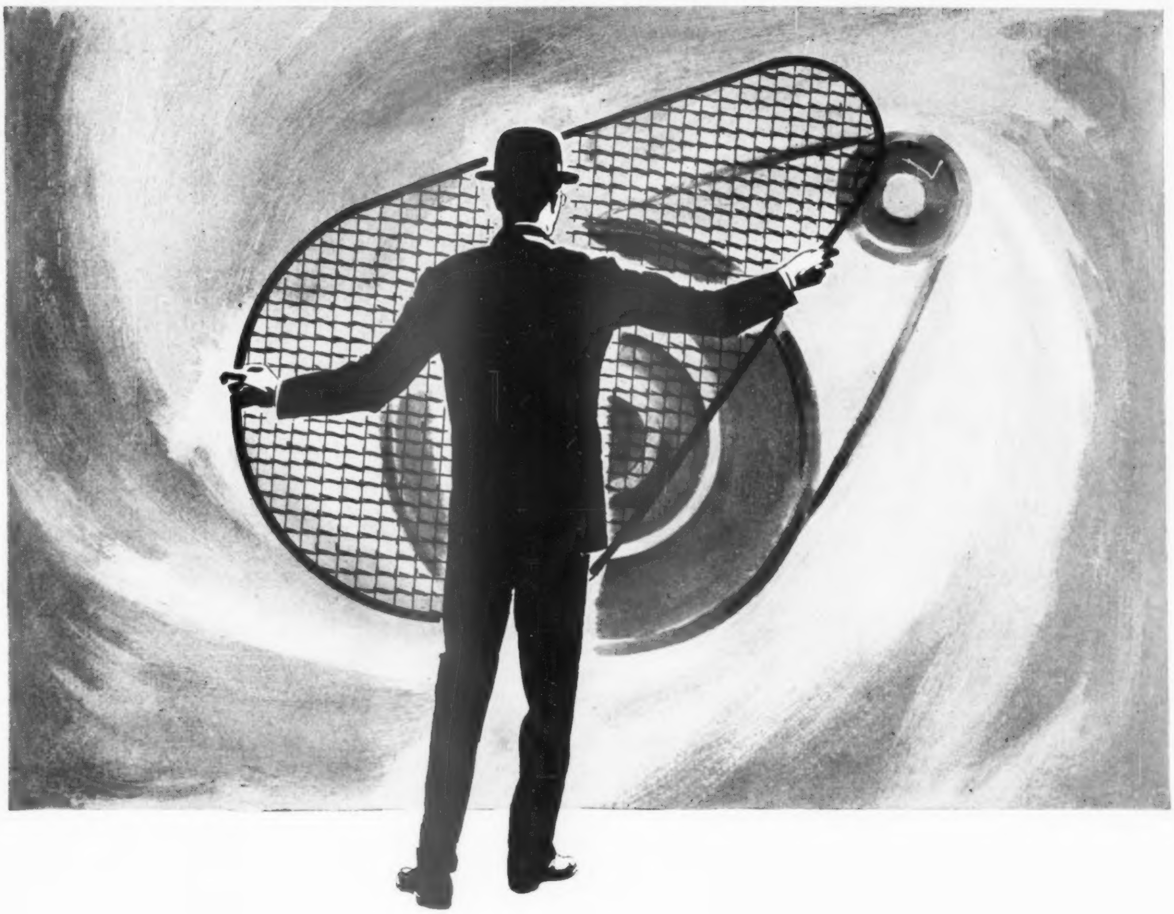
I. Demand: Light, Variable

Now that the usual pre-Christmas pickup has started, businessmen report some gains in credit demand. But no city admits to anything like a boom, and many say that demand for credit is lagging below last year. In New York, the economist for a large small loan company says, "There will have to be a substantial reduction in unemployment before consumers will be willing to increase their indebtedness very much." An appliance dealer in San Francisco agrees.

In Milwaukee, Rudy Binder, president of Wisconsin Consumer Finance Corp., says that cash lending is experiencing its worst December since 1936. He blames it on the fact that Milwaukee is a capital goods producing area and is still feeling the effects of the recession.

A Pittsburgh bank notes a slight improvement in consumer credit in the last couple of weeks—because of Christmas and "some conviction that business is on its way up"—but is "taking it with a grain of salt."

Credit in Seattle seems improved, partly the result of reemployment at



This friendly AM man helps keep machinery humming without harming!

A sure way to lower insurance costs is by reducing on-the-job accidents. And famous for doing just this are the Safety Engineers of Mr. Friendly's company—American Mutual.

One of these AM specialists—while inspecting a new policyholder's plant—spotted what he considered to be a hazardous hand-fed machine operation. The accident record backed him up—the operation had resulted in many serious and costly injuries. He suggested equipping the machine with an automatic feed. Subsequently, such a device with an automatic ejector was installed. This controlled the point-of-operation hazard . . . reduced workmen's compensation insurance costs . . . increased production over 65 percent!

Safeguarding employees to keep morale and output high—and insurance costs low*—is another important AM service that could benefit your company. Why not call in your *friendly* AM *man* now! American Mutual, Dept. BW-18, Wakefield, Massachusetts.

*The Freiberg Mahogany Co., another AM policyholder who profited through good safety experience, saved $51,167 in 9 years (difference between manual rates for this industry and rates actually paid) . . . gained another $16,195 through AM mutual dividends.

American Mutual

LIABILITY INSURANCE COMPANY

Your friendly AM man can advise you on all your liability insurance needs

A leading writer of Workmen's Compensation, all forms of Liability, Crime, Accident and Health Insurance

Boeing Aircraft. Houston reports the same rate of applications now as at this time last year.

II. Auto Question Mark

Clouding the entire picture is the state of the auto business (page 23). Only a few places—including Philadelphia, Los Angeles, and Jacksonville—report any increase in demand for auto loans.

Most cities, however, say there aren't enough new cars in the dealers' hands to test the market. "The recession has taken the time buyers, the working people, out of the market," is the view of auto dealers in Philadelphia, where unemployment is still running at 7%.

Of course, this is the time of the year when cash buyers make up the bigger share of the auto market. Even so, dealers are surprised at the number of cash deals; but banks generally haven't felt any upsurge of borrowing.

III. No Easier Terms

What may be missing—besides enough cars to sell—as this recession ends is the very thing that helped push 1955 to the pinnacle. That is the leverage a sharp easing of terms gives to installment credit. Wide-open credit—moving from 24-month contracts up to 36 months and even 42-months—in that record sales year had much to do with the upswing.

That sales tool just isn't available now. Terms have long since become standard at 36 months, and up to now at least, there are no reports of pressure from consumers to lengthen the period.

The big auto finance companies say there is little chance of any liberalization of credit. The average contract length runs something over 30 months, and the companies are asking for a third down, with a willingness to cut that to a fourth for good customers. But, says L. W. Lundell of CIT: "That's as far as we'll go."

Dealers themselves aren't yet ready to use easier credit to boost sales. They're afraid of another 1955, which kept too many people in debt too long. Easier terms, says a Philadelphia dealer, "would undoubtedly sell more cars." But he adds: "It's like going out and getting drunk. You feel better—until the morning after."

• **Sales Boost**—That easier credit does boost sales was proved by a Houston bank that started handling 36-month paper. Its auto loans jumped from 34 in September to 135 in October and 124 in November. But others in Houston are sticking by a 30-month limit. Still, there's a nagging fear that a sustained lag in new car sales may increase pressure for 42-month paper and 10% downpayments. Federal Reserve Board officials now regard 36 months as the last frontier on auto credit, but are hearing stories about what will happen if new cars don't sell briskly. These rumors jolt them.

It's unlikely, however, that the Fed will plump for consumer credit controls, simply because (1) it doubts if it could get any regulation passed on a permanent standby basis, and (2) private samplings indicate only a bare chance for any Congressional action.

Price War in Aluminum

It's not price cuts, but it's promises not to raise prices before mid-1959. Alcan began it; others followed.

From now till midyear, aluminum prices have a ceiling over them but no floor under them.

That's the effect of three days of price maneuvering last week that started in Canada and ended in Pittsburgh. It doesn't make U.S. aluminum producers happy—their costs keep on rising, yet they are now committed not to raise prices.

In theory, aluminum producers, like many basic metal suppliers, favor a policy of firm prices over that of "price at time of shipment." But the latter policy has been widely adopted in recent years as the only way to keep step with rising costs of new plant, electric power, and labor. Thus, most producers weren't entirely happy when Aluminum Co. of Canada, more than a year ago, switched its pig and ingot pricing from "price at time of shipment" to a guaranteed price for 60 days after placing of order.

• **Chain of Events**—The rest of the industry went along with Alcan's move, rather than lose business. Then it had to shift gears again last week. Alcan conceded that the 60-day policy had not been wholly successful. It told customers that the policy would be terminated forthwith but that it would guarantee prices on any pig and ingot orders placed before Jan. 1 and shipped before July 1.

U.S. producers, still smarting under Alcan's 2% price cut last spring that spread through the industry, found it hard to follow the reasoning behind the Canadian company's move—ending an unsatisfactory 60-day guarantee policy by instituting a new policy of a 209-day guarantee. But again they had to go along with it, and the next moves came fast.

Reynolds Metals Co. announced it would guarantee prices on all products—not merely pig and ingot—that are ordered before Jan. 1 and shipped before July 1. This broadening of terms would have meant little in the case of Alcan, whose business is primarily in pig and ingot, but it was a natural way for Reynolds, which chiefly sells mill products and semifabricated aluminum, to stay competitive.

On Dec. 5, Aluminum Co. of America tied the whole deal up in one package by guaranteeing prices on all products shipped before July 1, whether or not they are ordered by yearend. And Kaiser Aluminum & Chemical Corp. promptly joined in this policy.

• **Aluminum Roof**—Unless someone decides to cut prices in a period when many industry people think prices should be going up, Alcoa's policy will govern U.S. aluminum pricing through next June. It's a step back toward the older system of firm prices, while costs are anything but stable.

"Here we are," snorted one aluminum industry veteran, "with customers' inventories in need of rebuilding, with business pointing upward, with a distinct increase in orders in recent weeks, and with our hands tied tight. You haven't noticed the steel people, or anyone else, ruling out price boosts through next June, have you?"

In the trade, there had been gossip for weeks about possible price increases. Some people didn't take it seriously as long as business was soft, but orders have picked up in the last month. Indeed, observers are wondering if Alcan, which cut prices last spring as an avowed device to broaden the market, might have guaranteed its pig and ingot prices for seven months to insure that its missionary work on pricing won't be undone.

• **Alcoa's Way**—There's no question about why Alcoa promptly broadened the policy to cover all products for shipment before July, regardless of when the orders are placed. A spokesman explains that it simply wouldn't be practical to follow any other policy.

As long as only pig and ingot prices were guaranteed, for example, customers for mill products would be left to fend for themselves. And they would do so by ordering pig and ingots for the producer to store, free of charge, until they were ready to have the metal converted into fabricated products.

Then, too, if a Dec. 31 deadline for orders was enforced on pig, ingot, and mill products, Alcoa felt an unrealistic situation would develop. Before Dec. 31, the company points out, it would be impossible for buyers of mill products to predict exactly what specifications and what quantities they would need as far ahead as June 30.

In Business

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First National City Bank Seeks U. S. Charter for Its Trust Affiliate

The First National City Bank of N. Y. this week announced plans to convert its affiliate, the City Bank Farmers Trust Co., from a state-chartered trust company to a federally chartered national bank with trust powers.

National City called the move mere housecleaning, but some observers said it would have the effect of eliminating the power of New York's Banking Board over any future mergers involving City Bank Farmers. If City Bank Farmers had a national charter, it would need merger approval only from the Comptroller of the Currency; at present, it must also have the O.K. of New York authorities.

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Switch in Oil Product Procurement Looms If U. S. Wins Antitrust Suit

If the government wins its antitrust suit against Standard Oil Co. (Kentucky), Standard Oil Co. (New Jersey), and Esso Standard Oil Co., observers are wondering where Kyso may go for its refined petroleum products. The case was filed in a federal district court in Louisville last week—the court has not, as erroneously reported in BUSINESS WEEK (BW—Dec.6'58,p30), enjoined the companies from the practices at issue. Esso denies the charges.

Antitrusters seek to break up what they call a conspiracy to divide markets and an illegal conspiracy and contract to prevent competition. The suit charged that Kyso works under an "indefinite contract" to buy 80% of its requirements from Esso. If the government wins, there is some speculation that Kyso may have to acquire its own refining facilities; the government could hardly block a merger for this purpose.

Antitrusters have long suspected that major suppliers tend to stay out of or go easy in market areas staked out by another. They don't flatly say so, but they obviously feel that Kyso has in effect been an arm of Esso.

The government intends that Jersey (presumably through Esso, its refining and marketing affiliate) shall supply others in Kyso's market.

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Washington Chevy Dealers Plead Guilty, Pay $1,000-$2,000 Fines in Price Fix Case

A trade association of Chevrolet dealers in Washington (D. C.) and its 14 member dealers this week pleaded guilty to charges of agreeing to fix retail prices on new cars and to set uniform hourly labor rates for repairs and servicing.

The Greater Washington Chevrolet Dealers Assn. co-op was fined $5,000, while 13 dealers paid $2,000 each, and one paid $1,000. The indictment, obtained by the Justice Dept., charged among other things that the dealers conspired to fix list prices substantially higher than those suggested by the manufacturer.

Trials on similar charges are pending for Ford and Oldsmobile dealers in Washington, and for Ford, Chevrolet, and Plymouth dealers in Northern California.

The Philadelphia Radio & Television Broadcasters Assn. and nine Philadelphia radio stations this week signed a consent decree to end a federal antitrust suit charging the stations had agreed to maintain rates for commercial time set by each station. The decree enjoins agreements against competing in ad rates and requires that the trade association be dissolved.

• • •

Airlines Discard Conventional Plans In Scramble to Pay for Costly Jets

All sorts of new financing plans are popping up as the airlines scramble to convert to the immensely costly jet age (BW—Nov.8'58,p31). Three trunklines have just come up with four different departures from conventional long-term financing:

• **Eastern Air Lines** early this week turned to a convertible note and a revolving credit agreement. Prudential Insurance Co. is taking the note, for $25-million, at 5%. It's due in 1978, can be converted to Eastern common anytime up to Dec. 1, 1968, at $41 a share (current price: about $35). The revolving credit, for $50-million, until 1960, was arranged with Chase Manhattan and 17 other banks. Interest is to be ½% above prime, with a 4½% ceiling

• **Northwest Airlines** is trying an issue of 457,000 shares of 5¼% cumulative convertible preferred stock,

• **National Airlines** has a $40-million short-term loan from the First National City Bank of N. Y. and the Chemical Corn Exchange Bank to be paid back in 6½ years, beginning March, 1961; interest is ½% above the prime rate at the time of each installment.

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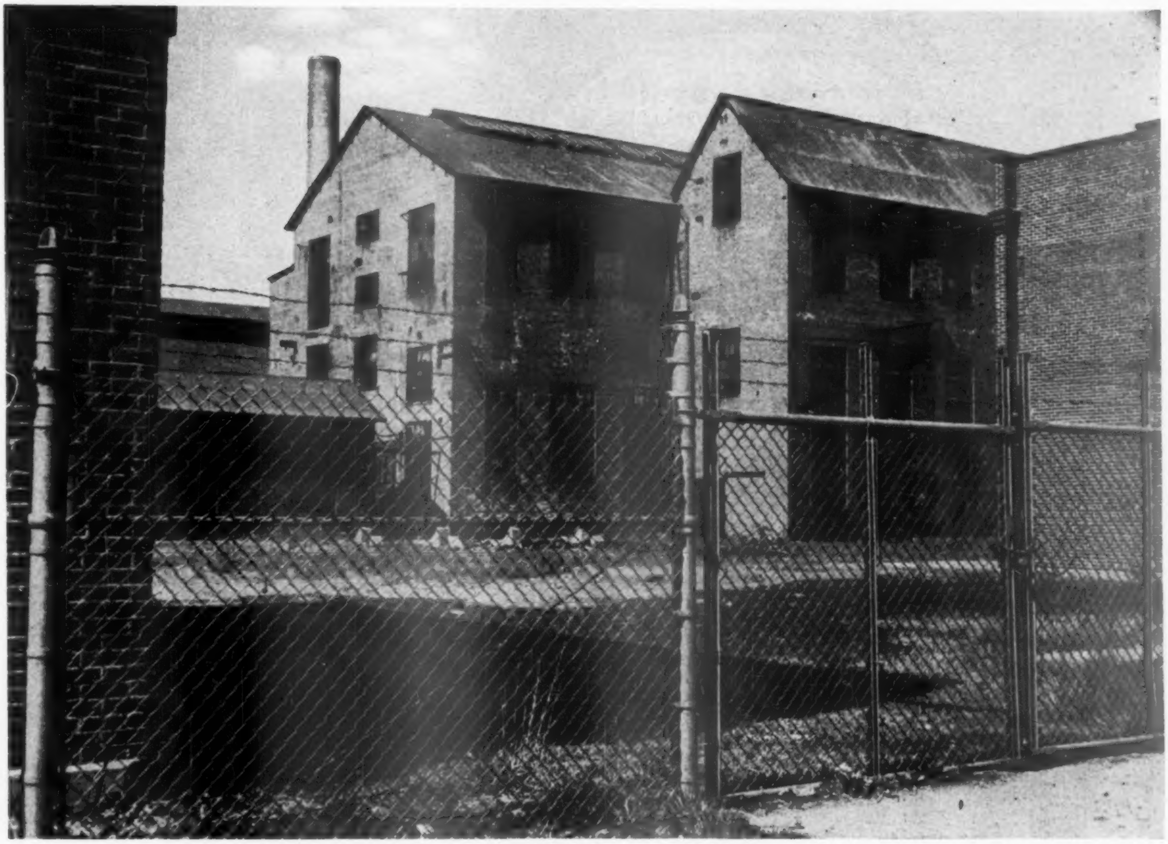
Business Briefs

An edible food wrapper, made from a new corn hybrid called Amylomaize 1, may become a routine part of the family diet. Developed for American Maize-Products and National Starch by Bear Hybrid Corn Co. and the USDA, the transparent film will encase everything from peas to spaghetti. The soluble wrapper will also be used to package other products such as insecticides and detergents.

American Motors Corp. this week tipped its hand on its expansion program: By next summer a two-shift, straight time capacity of around 440,000 cars a year as against present capacity of 330,000.

Oil import curb: The Justice Dept. frowned at a new voluntary plan that would have given 60% of total import allocations to companies with a historical position in the field, with the remaining 40% split among all importers on a basis of refinery runs.



Tragedy in Pleasantville

You'd never suspect it.

Here, in this pleasant, sunny little town, a grim drama was played to its bitter end. When the curtain came down, the local manufacturing plant, economic mainstay of the community, was out of business.

How come?

Obsolescence took over. The plant's management had decided against undertaking a machine tool replacement program "at this time" because their machines were "still useful".

Alert competitors, using the latest, most efficient equipment and methods, quickly gained a decisive edge in production, in prices, in sales.

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WASHINGTON OUTLOOK

WASHINGTON
BUREAU
DEC. 13, 1958

A BUSINESS WEEK
SERVICE

The Democratic legislative program is significant to business. The program came this week from the party's advisory council—made up of the Democratic chieftains outside Congress. The program won't be enacted in all respects. The party's Congressional leaders oppose part of it. But it's a sort of long-range forecast of Washington's Congressional climate for the next two years.

Pay attention to the spending proposals. Better than half of the more than two-score recommendations call for bigger federal outlays.

There are business investigations on the program. A fresh look at the difference between farm and consumer prices, for example. The food companies will have a lot of testifying to do. The whole field of so-called administered prices will be opened up, with antitrust implications.

As for taxes, no hope for cuts is held out. In fact, a careful reading of the program leaves you with the feeling that these Democratic leaders would like to see taxes higher—especially in the business field, where the Eisenhower Administration has given some relief over the past six years.

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For specifics, start with spending:

The Democrats want more for defense. The prospect is that Pres. Eisenhower will budget \$42-billion, some \$5-billion less than the services, themselves, asked. The political push will be in the area of missiles and rockets, plus air transportation to move divisions quickly.

They talk of more for foreign aid. Eisenhower, himself, will propose an increase, maybe as much as \$1-billion in this area. But the Democrats have higher sights in the East-West economic conflict. They want more for the so-called Truman Point-4 program of technical assistance; they want at least \$1-billion yearly for five years in the development loan fund; and more subsidies for disposal of farm surpluses abroad. They also plug lower tariffs.

Welfare schemes run into billions, though without discussion of the price tag.

Aid to school construction is one point. But no state which fights integration could come in for benefits—a sore point in the South.

Another is federal scholarships, on a grand scale, to "meet the challenge facing the U.S. during the next 10-years."

Another is more aid to "impacted" areas—communities that face heavier school expenses because of federal installations.

Proposed social security expansion would be huge and costly.

Payroll taxes would be increased to finance hospital care for the retired —up to 50 to 60 days per year.

Retirement benefits would be lifted, with \$100 monthly the minimum goal.

Widows' benefits would be increased. Dependency benefits, which now stop at age 18, would run on to age 21.

Disability benefits would be liberalized. Under present law, disability benefits can't start before age 50. The proposals would start them at 25.

The big tax bite is in this proposal: Payroll deductions, which amount

WASHINGTON BUREAU
DEC. 13, 1958

to a sort of gross income tax, now stop at $4,800. The security planners would push the ceiling to $7,200 by 1963.

Support for a lower retirement age is implied. Retirement now is at age 65 for men, 62 for women. The council favors lower limits.

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The Democratic Congress will vote more money for farmers.

The program is uncertain, as to details. But the party leaders made one thing very clear—and this is a place where they can count on real backing from the Democrats in the House and Senate. They propose that price supports go up. This would mean tighter production controls. It's a line that has backing from small farmers.

Look at what is backed for labor. And keep in mind that, even so, Meany's threat of a labor party came after the Democrats took their stand:

A higher minimum wage—$1.25 an hour, this time.

But here's the hook: Coverage would be extended to 10-million more workers. These are mostly in the retail and service fields.

Then, there's the ban on state right-to-work laws. The Democratic command backs this, a major Taft-Hartley revision.

You remember the recent federal unemployment pay supplement? The Democratic program would make this permanent. The idea is to write a new minimum in Washington, then force the states to come up to it. It will have strong state backing. What has been borrowed in the past would be written off—forgiven.

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A new government-owned power fight is in the making.

Self-financing for TVA-type projects is pretty well assured. There now seems little doubt that this big government power project will get authority to sell its securities and finance its own expansion.

The atom is deeply involved. Congress will put up lots of taxpayer money to back projects. It's the old issue in a new garb.

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Pay close attention to fiscal policies advocated by the Democrats.

Inflation is being deplored. Many lines in the party's report are spent in talking about rising prices in a period of recession.

But lower interest rates will have strong backing to encourage economic expansion.

The fear of Administration economists is runaway inflation if the Democrats go too far. Government officials who are aware of the trend over the past several years now predict an inflation breakthrough. They see the start in the last half of the new year.

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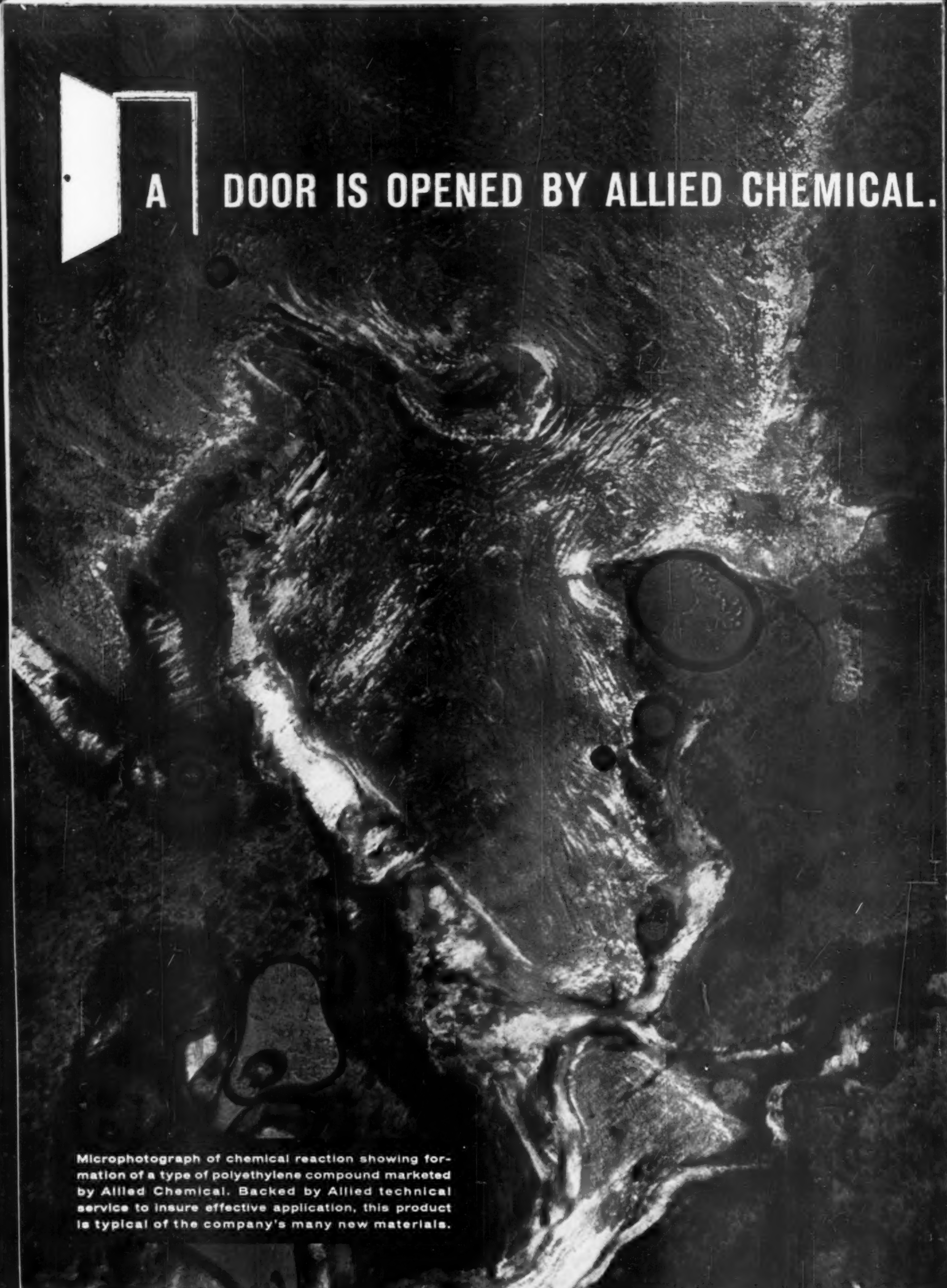
Eisenhower will suffer a budget disappointment.

Here's what he's up against: Spending this fiscal year, which ends next June 30, will be $79-billion plus. Eisenhower wants his new budget, for fiscal 1960, to be under this. It probably will be—in January. But this budget will be unrealistic, will include cuts that must be restored.



Microphotograph of chemical reaction showing formation of a type of polyethylene compound marketed by Allied Chemical. Backed by Allied technical service to insure effective application, this product is typical of the company's many new materials.

Like all '59 Chevies, this Impala Sport Coupe is new right down to its safer Tyrex cord tires.

The Bel Air 2-Door Sedan—Fisher Body beauty and Safety Plate Glass all around.

AMERICAN-MARIETTA'S Chmn. Hermann (left) and Pres. Pflaumer explode a myth that surrounds the company's phenomenal growth.

No Midas Touch—Just Principles

"That man," say some securities specialists along Chicago's La Salle Street, "has the Midas touch."

No businessman could hope for a greater attribute. The businessman in question is Grover Hermann, the wiry, 68-year-old board chairman of American-Marietta Co.

But few people—few businessmen, for that matter—have ever heard of Grover Hermann or American-Marietta. Drop the company's name in conversation and the likely response is, "Oh yes, they make ships, don't they?" They don't. (They make paints, inks, chemicals, adhesives, industrial finishes, cement, prestressed concrete.) Try Grover Hermann's name and the likely response is a blank stare.

Yet among U.S. industrial corporations, American-Marietta ranks in the top 200 in sales, ($234-million in 1957); in the top 125 in net profit, ($17-million last year). In fast but sturdy growth over the last decade, it has few equals.

• **Exploded Myth**—Hermann and A-M's Pres. Robert E. Pflaumer see no need for a myth to explain their company's sevenfold growth in the last decade. They calmly reduce that "Midas touch" idea to a set of management principles.

The principles have worked so well that the recession hasn't stopped A-M's growth. Within a couple of months, the company, which expects total sales of $250-million this year, probably will acquire another large cement producer, thus drawing down its working capital but pushing up its sales volume and profits.

Only 10 years ago, American-Marietta's sales stood at $37-million, its net at not quite $1½-million. Grover Hermann was its president then. He had helped found the company 35 years before. In all those years—through the two world wars, the boom and the bust in between—his company had grown in obscurity, making such unglamorous things as asphalt paints, resins, industrial abrasive compounds, pigments, and powders.

• **Take-Off**—It was just about 10 years ago that Hermann called in his management heads and a consulting economist and set up for them the problem of what to do with the company. A-M was successful enough, for its resins and industrial finishes were going into the enamel on millions of cars and household appliances, and its adhesives held together much of the plywood consumed in postwar housing. It had more money in the till than ever before and its credit rating was high. But it was tied, if indirectly, to a mercurial consumer market that in 1948 had begun to take a short, sharp beating. Hermann wanted something bigger, with the risk more widely spread.

The upshot of a couple of months' thought and research was the decision to get into the business of supplying the heavy construction industry.

• **Timely Decision**—From hindsight's viewpoint, the decision could hardly have been better. Population was expanding fast, and the effects of the postwar income redistribution were spreading fast. Suburbia needed thousands of miles of new streets, drains, sewers. The larger, more mobile population needed thousands more miles of highway. Industry needed millions of square feet of concreted floor space. To keep it all going, new power resources had to be harnessed, new public works of all kinds had to be built.

• **An Acquisition Binge**—So American-Marietta, with the backing of bank and insurance company loans, started buying into the industry. In the last 10 years, it has acquired four major lime and cement plants and half a dozen concrete pipe producers; has bought or established more than 20 plants turning out pre-stressed concrete structures (beams for highways, bridges); and has acquired four large brick and tile plants. It has added steadily to its original

line of products: Three companies making industrial finishes and four making synthetic resins and adhesives have been drawn in.

To spread operations even more diversely, A-M bought a textile dyestuff producer, a manufacturer of household mops and polishes, a printing ink maker, and a producer of cigarette manufacturing equipment.

This acquisition binge since 1950 has cost A-M some $40-million in cash and about $60-million represented by stock issued to former owners of the companies acquired.

A-M's stock stands at 39¾ bid, over the counter. One reason that the company has not sought listing on the New York Stock Exchange is that it has so frequently made new stock issues for acquisitions, and, says Hermann, "the red tape . . . would have slowed our acquisition program."

• **Masterminds**—Over this widespread (from coast to coast, literally) and varied enterprise sit Hermann and Pflaumer. It's their boast that American-Marietta's performance very nearly matches the goals they set. One of the most important of those goals is that the company should each year return about 20% on invested capital. Last year, the return ran at 14.8%; the year before it was 19.8%.

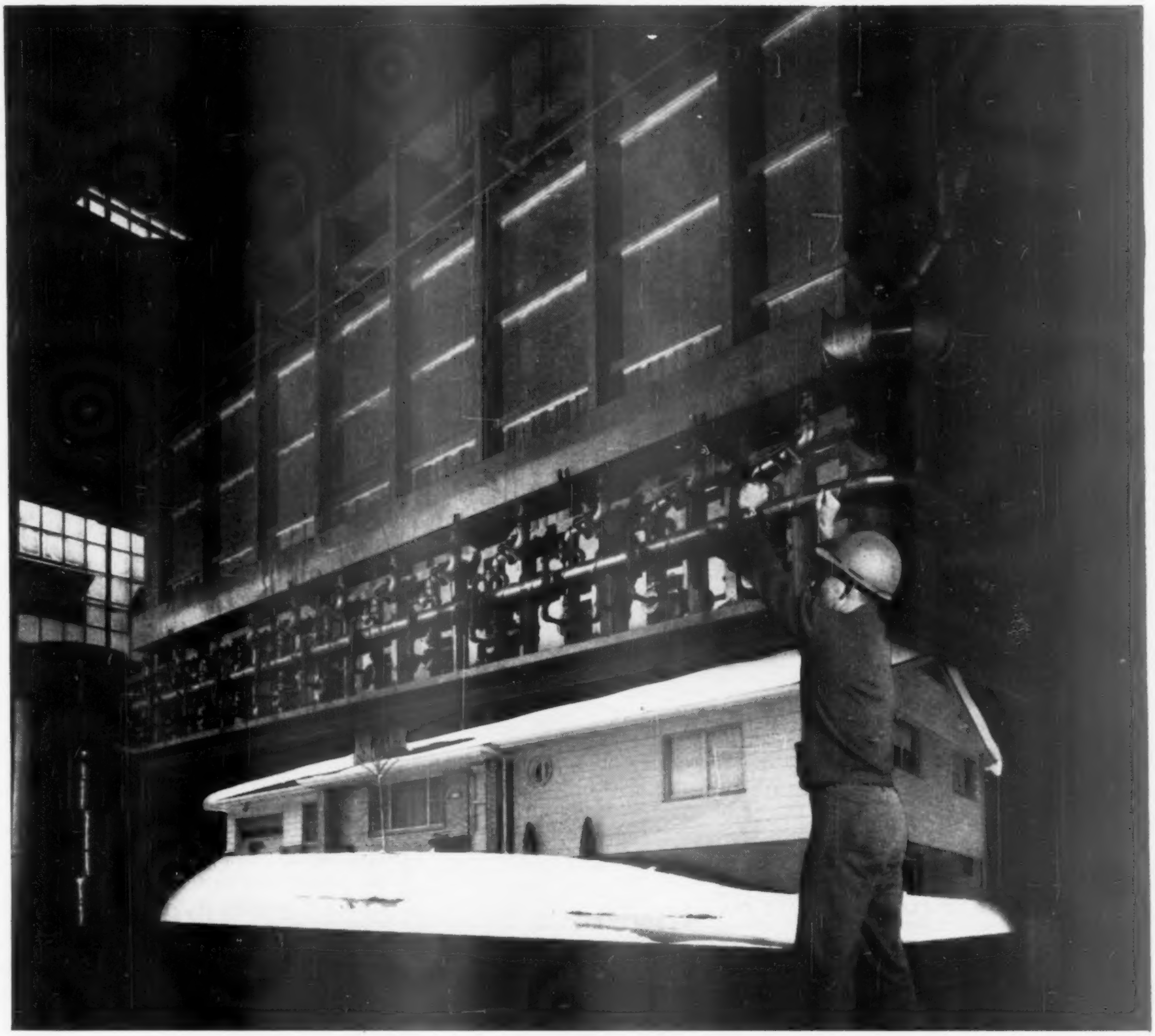
I. Screening the Prospect

No company can grow so fast as that and earn that much just because it is allied with two large economic and social forces. It takes the work of men with some vision. Maybe it even takes a "Midas touch."

Hermann and Pflaumer, though, see this reduced to these few broad principles of management.

• **Who's Eligible**—First is the requirement that any prospect for acquisition by A-M should show clear promise of returning 20% on invested capital—or at least that it will not harm the 20% return that A-M aims for as an average throughout its operations. Usually this means that with a few millions spent for expansion and modernization the prospect will promise that rate of return.

This puts limits on the companies that can be acquired. So the second requirement is that each major addition to A-M's divisions and subsidiaries should have its own management, ready to keep working when the company becomes part of A-M. "Some people ask me," says Hermann, "whether we have digested this or that yet. I tell them I don't know what they're talking about. The managements—and that usually includes the owners—are interested in selling, not because the company's a dud, but because it can be more effective in its industry when



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SINCE
GRANITE CITY STEEL
1878

GRANITE CITY STEEL CO.
GRANITE CITY, ILLINOIS

SALES OFFICES: Dallas • Memphis
Kansas City • St. Louis • Minneapolis
Houston • Tulsa

it shares access to American-Marietta's lines of credit."

What's usually more important for the seller is the tax angle. An aging owner of a small business is often anxious to sell his interests rather than have estate taxes bite off large parts of the business after his death.

The third chief requirement is, naturally enough, that the prospect should fit into A-M's general lines of business. It isn't readily clear that A-M's ventures into mops, inks, dyes, and cigarette-making equipment fit this requirement. But these ventures do fit in. A-M got into the mop business in 1952, when it bought O-Cedar Corp. O-Cedar came close to the required profit pattern. More important, it provided A-M with 150,000 new sales outlets for a line of consumer paints it had just begun to market.

• **Foreign Territory**—More recently, A-M has been acquiring companies further afield from its regular lines.

Printing inks came into A-M with the acquisition last year of Sinclair & Valentine Co. Technology was part of the key to this purchase: Ink producing needs just about the same skills as paint-making. But profit potential was an even bigger basis for the deal. Printing inks sales are climbing at the rate of about 10% a year. The reason lies in the rise of supermarkets, which demand packaged goods, and in the power of the market researcher, who says that the more pleasingly colored the package the better it sells. And the color has to come in the printing inks.

In July this year, A-M bought Southern Dyestuff Corp. Again, technology is part of the reason. But one of Southern Dyestuff's most valuable properties is a color-fast blue dye for denim cloth.

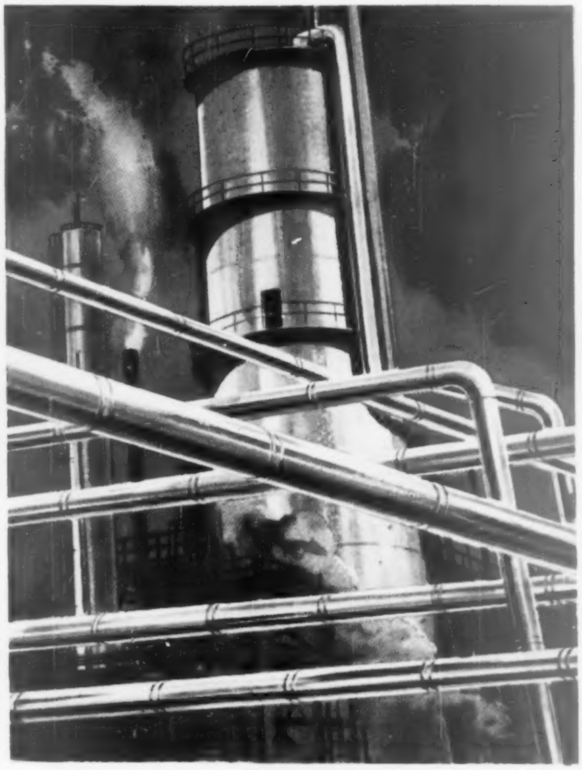
The cigarette-making machinery, which came to A-M through the purchase 18 months ago of Guardite, Inc., looks like a real puzzler. But one Guardite property is pressure and temperature simulating equipment, used in testing the instruments that go into missiles and jet airplanes. There's profit potential in this work, and it also has applications in A-M's research into adhesives and resins.

II. Central Control System

Hermann and Pflaumer split into two parts the task of investigating and selecting the prospects for inclusion in A-M. Hermann, along with his vice-president for finance, John Donoho, test the financial and managerial condition of the prospect, checking it against A-M's profit requirements. Pflaumer, an industrial chemist by technical training, probes the potential of the company, searching for products and processes that can be profitably developed.

• **Watchdog Tactics**—Selection is only

Goes from carton...



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METAL-ON . . . newest insulation idea by Johns-Manville entirely eliminates time and cost of separate metal application!

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Second, there's fuel savings and closer heat control! The insulation in Metal-On is J-M's Thermobestos®, widely used in power generation and process industries for temperatures to 1200°F. Its conductivity is lowest of all insulations in general use in these industries.

Then, there's maintenance savings. Metal-On never needs painting; won't rust; is impervious to dirt, oils and grime. Its jacketing is made of an aluminum alloy selected for superior corrosion resistance. Its thickness is ideal for outstanding appearance, stiffness, resistance to abuse and pitting.

For information on Metal-On, or the J-M insulation for your needs, write Johns-Manville, Dept. B-7, Box 14, N. Y. 16, N. Y. In Canada, Port Credit, Ontario.

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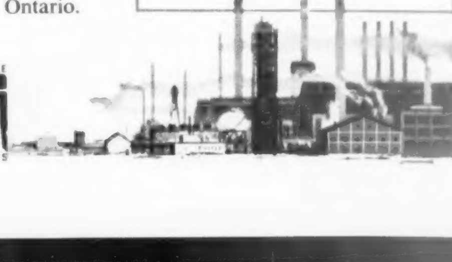
JOHNS MANVILLE JM PRODUCTS



YOU ARE PAYING FOR 2-WAY RADIO

The cost of not having 2-way radio is actually taking dollars out of your pocket every day . . . more money than it would cost to own your own Motorola 2-way radio system. Here's why!

With radio contact and control, you can move your drivers directly from job to job—as they save miles, they also save valuable time. There's less back-tracking, less "dead-heading"—more efficient and more profitable use of drivers and vehicles.

AND HERE'S PROOF. Even if your vehicle costs are as low as $3.00 an hour—saving as little as 4 minutes an hour will more than pay for your Motorola mobile radio including installation and maintenance.

If you have one vehicle or hundreds, you too can use Motorola 2-way radio profitably. It's simple to obtain Motorola mobile radio; all details are handled for you. Motorola's complete 2-way radio "package"—systems engineering, financing, installation and maintenance—assures you of the finest communications system, designed to fit your needs.

MOTOROLA 2-WAY RADIO

Motorola Communications & Electronics, Inc. • A Subsidiary of Motorola, Inc. • 4501 W. Augusta Boulevard, Chicago 51, Illinois

part of the battle. So varied an enterprise needs careful control. The managements of A-M's 23 operating divisions have autonomy in day-to-day operations. Says Pflaumer: "We don't bother them about details so long as their pre-tax profits come up to scratch." But the mere mechanics of keeping watch over profits means that there has to be fairly strong central control.

Each month, the heads of the 23 different parts of the company meet in Chicago. Each major spending project has to be cleared through the headquarters' appropriations committee.

Each month, the different divisions have to get detailed reports of spending and sales into headquarters. These spending reports run to vast detail. One recent example: One of A-M's divisions reported everything from a $120,000 expense for new machinery to a $108 item for an award and a dinner for a 50-year-man.

All this produces a close financial control from the headquarters. Some outsiders think it's too close; to be bogged down in such detailed figures, they say, must jeopardize flexibility.

But the accounting process at A-M's headquarters takes no longer and requires no more staff today than it did five years ago when the company was much smaller.

The reason lies, of course, in mechanization and modernization. These are among Pflaumer's chief concerns.

III. Economics of Automation

Pflaumer has a system for figuring the economics of modernization and mechanization. "We believe," he says, "that on the average through all our operations we can economically spend $17,000 to $20,000 on new machinery if it eliminates one production worker. That figure will increase as wages, and particularly fringe benefits, increase."

Those figures are only a broad guide for Pflaumer. They are deduced in part from analyses of the expected return from the equipment used by the company (BW—Special Report, Sep.27 '58,p74), and in part from experience.

Pushing this philosophy, A-M has recently spent:

- $30,000 for a machine that automatically fills and seals paint cans, replacing five men.
- $100,000 for a machine that automatically blends and weighs adhesive mixtures, packs the mixtures into sacks, and sews up the sacks. It replaces four men.
- $35,000 for a self-propelled drilling rig for use in limestone quarries. It eliminates three men.

• **Decisive Action**—Sometimes this policy of eliminating men wherever it's possible doesn't sit well with managements of companies bought by A-M.

But counterbalancing that, says Pflaumer, is his own isolation from day-to-day operations. "This makes it easier for me to push through that policy; unlike the division managements, I have no emotional problem about replacing 'those nice guys who've been working in Gang No. 2 for 20 years.'"

This same isolation helped A-M through the recession. Hermann and Pflaumer called in their division managements. "We gave them no orders," says Pflaumer, "but we did convince them that staffs had to be cut 10%." So A-M entered the recession at the end of the year battened down as if for a storm.

Despite the staff cuts, there was no slowdown in the company's capital spending. From 1951 to 1958, it put $61-million into new plant and machinery. In the first half of this year, when thousands of other corporations were hacking at their spending budgets, A-M spent at a faster rate than ever for new machinery, putting $8-million into it in six months.

IV. The Top Men

In most U.S. corporations, policies of eliminating men are usually talked of publicly only in metaphors. Not so at A-M; the policy is stated baldly.

A-M maintains no public relations department; Hermann and Pflaumer keep no staffs of administrative assistants hovering outside their office doors.

Pflaumer (Princeton '34 and a Rhodes Scholar at Oxford in 1935) is equally frank about himself. His first job was in Rohm & Haas Co.'s research department in 1939. In a couple of years he was chief chemist of one of its divisions. Then he switched tracks, became divisional sales manager. By 1948, he was at A-M as director of research. He says: "I set out in the 40s to get a top job. I deliberately got the training I needed for it." And he got the job at A-M in 1954.

• **"Midas"**—Two years before that, Hermann who with his family holds well over one-third control of A-M, moved himself from presidency to chairmanship. Until then, A-M had been strictly a one-man show. A-M's bankers, according to gossip, suggested the change because they wanted the company's management strengthened.

Hermann is still the active head of A-M. Some of the outsiders who credit him with the "Midas touch" in A-M's acquisition program say they shudder to think what would happen to A-M's program if the company had to get along without Hermann. "The program would stop immediately," says one.

But Hermann and Pflaumer feel they have reduced that "Midas touch" to a set of management principles. END

In Management

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F. L. Jacobs Is Suspended by NYSE For Failure to File Annual Report

An acquisition binge can bring with it all sorts of problems. Right now it has brought F. L. Jacobs Co. a complicated accounting problem and a temporary suspension in trading on the New York Stock Exchange.

Jacobs, a Detroit parts maker, acquired Symphonic Electronics Corp., a phonograph maker, in mid-May. It also picked up majority interest in a lace maker, which in turn bought a television film studio (BW–May31'58, p47). **The complexity of all these negotiations held up Jacobs' annual report long beyond the three-months-after-close-of-fiscal-year limit set by the NYSE.** Jacobs' fiscal year ended July 31.

The exchange decided to wait before suspending Jacobs until "a few days after Dec. 1," when the company said tax problems connected with Symphonic would be resolved, yet by that date Jacobs had not yet closed its own books, and the outside auditors asked for at least a month to complete their audit after they received the books. On Dec. 5, the exchange suspended trading in the stock until the report is issued—the company hopes by the end of the year.

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The Boss' Love for Unions Isn't Returned

When management feels kindly toward the unions with which it deals, are the union officials likely to feel as friendly toward the company? A team of professors from the University of Illinois and Wayne State University thought so, until they interviewed management and labor in 41 Illinois companies. **They found "no correlation, except perhaps in very extreme cases,"** they report in the current Journal of Applied Psychology.

One of the authors, W. E. Chalmers, professor of economics at Illinois, explained that while labor relations executives in many companies rated unions as being cooperative and ably led, union officials almost universally gave the companies low ratings.

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Oil Company Liberalizes Thrift Fund And Updates Employees' Pension Plan

In the oil industry, fringe benefits—traditionally generous—are getting so generous that individual companies have to hop to keep up with their competitors.

The latest changes in oil company benefits were announced last week by Shell Oil Co., which gave employees more investment choice in the company's Provident Fund by splitting it in two parts. Previously, the money that the employee put in (up to 10% of his salary) and the company's matching funds were invested in government and industrial bonds. Now, the employee can put some or all of his money into a common stock fund. The fund can buy shares of any company except Shell. Regardless of the employee's decision, all the company's money still goes into the bond fund.

Another change in the thrift plan: Employees may withdraw up to half of their own deposits made after Jan. 1. Previously, workers could get the money only when they left the company.

Hand-in-hand with the change in the thrift fund, Shell changed its pension plan. The company originally had compulsory retirement at age 60, later extended the cut-off date to 65, but with no change in the pension program. So, a man who retired at 65 got the same deal as one who left at 60. The company now has added a premium to the pension for those who work the extra five years, hopes it will convince more workers to stay on. Shell's top 200 or so executives, however, still have to quit at 60.

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Textron Loses Bid for American Screw Co.

"You can't win 'em all," a spokesman for Textron, Inc. said last week after Noma Lites, Inc., successfully blocked Textron's acquisition of American Screw Co.

Noma Lites Canada, Ltd., a Canadian subsidiary of the American toy and Christmas tree light maker, owned 25% of American Screw when the acquisition was first put to stockholders. The Canadian company managed to garner enough support to keep the plan from getting the necessary two-thirds approval when stockholders voted on it.

Textron then attempted to buy a majority interest in American Screw. It offered to purchase stock from individual holders providing at least 60,000 shares of the 117,952 outstanding were put up for sale. Noma meanwhile began buying on the open market, finally corraled "in excess of 60,000 shares" to control the company itself.

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Management Briefs

Top management's usual year-to-year pay increase got stalled during the recession. The latest survey of management compensation from the American Management Assn. shows **pay levels about the same as last year**—the first time in the 20-year history of the survey that they haven't increased.

Two of the West Coast's largest independent oil companies are joining forces. **Signal Oil & Gas Co. and Hancock Oil Co. stockholders have O.K.'d plans** for merging the two concerns effective Dec. 31. Signal will be the surviving corporation. . . .

. . . But the merger talks between General Dynamics Corp. and Material Service Corp., \$100-million-a-year building supply and mining company (BW–Nov.29'58, p38), have broken down. MS Chmn. Henry Crown called off the discussions because of "technical difficulties."

Sheraton Corp. of America is going into business overseas. It will take over operation of four Hawaiian hotels owned by Matson Navigation Co. next month, will buy them for \$18-million later in 1959. Sheraton has blueprints for a Puerto Rican hotel due to open in 1961, and is looking for other overseas sites.

CHRISTMAS sales stunt: A sea bag under the tree promises family that a boat is on the way.

TRYOUT Tiny lake (right) on dealer's property gives Glasspar prospects a sample of how boats run.

MARKETING

Boats Anchor Under Xmas Tree

California Christmas trees will sprout out with a new kind of ornament this year: a miniature canvas sea bag with a certificate inside showing that the family is on its way toward owning an outboard motorboat. These sea bags are the tipoff to what is going on in the boatbuilding business.

The bags are the latest gimmick dreamed up by Glasspar Co. of Santa Ana, Calif., which calls itself the largest maker of glass fiber outboards in the U.S. The aim is to help Glasspar dealers move boats in the slow autumn and early winter months—to prove that you can make and sell boats year around.

• **Stormy Seas**—A lot of companies—there are perhaps 400 in the glass fiber boatbuilding field—have seen some rough water this recession year. Yet Glasspar is continuing to set sales records. When the books close on its fiscal year ended Nov. 30, it expects sales to have reached roughly 10,000 units, or a 54% gain over last year; and dollar sales of around $6.5-million, a 71% gain.

I. Boat-in-the-Bank Plan

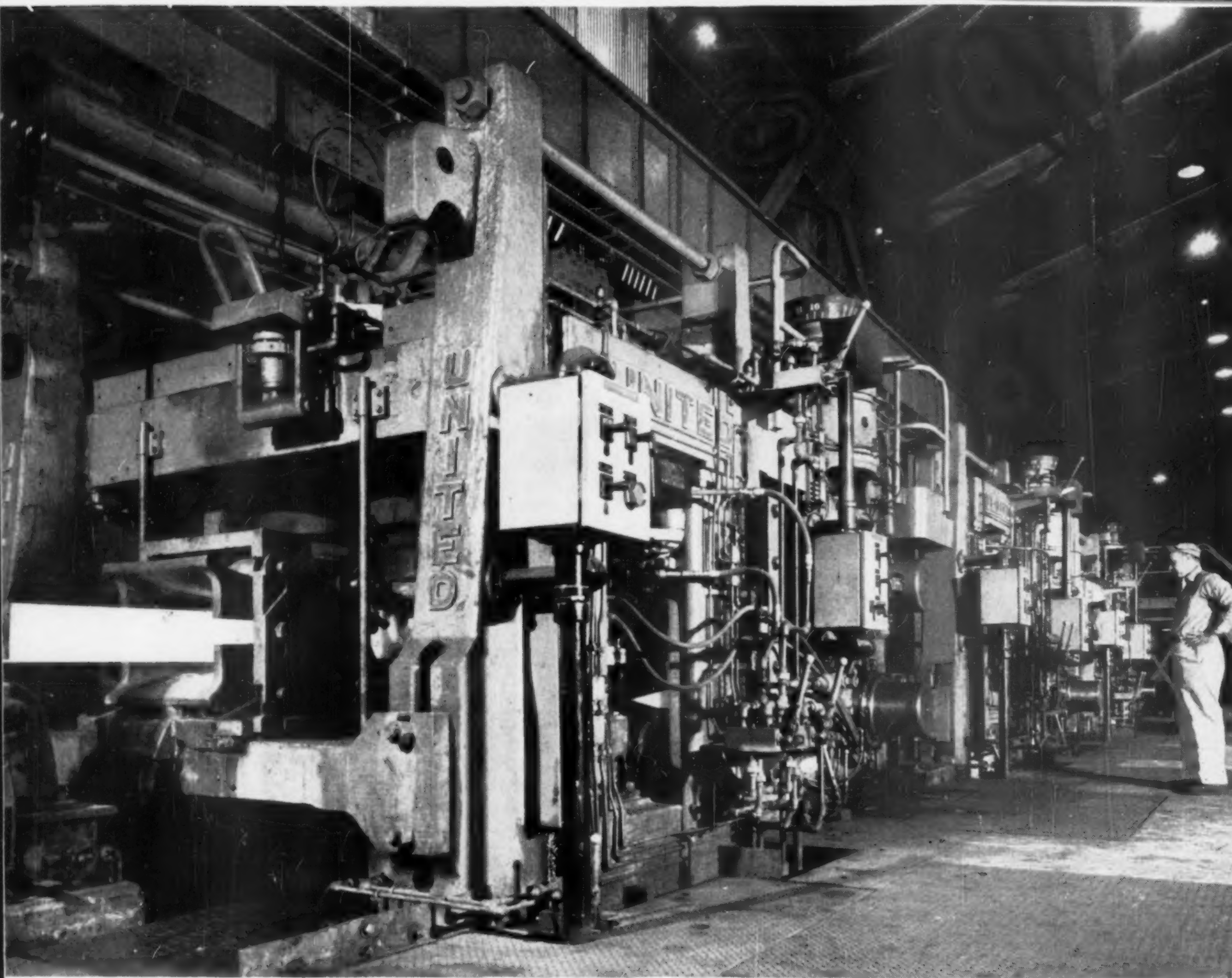
Glasspar's strategy: to help its nationwide network of dealers to realize that the boat business has a mass market potential, and to help them develop mass-merchandising techniques.

The little bags on the Christmas trees are part of the company's "Boat-in-the-Bank" plan. This permits customers lacking even a downpayment to begin owning boats. All a customer has to do is pick out the model he wants on the showroom floor. The dealer opens a savings account for him at a local bank, and the prospective owner pays into it at whatever rate he can afford. The boat goes into drydock until the buyer has saved up a downpayment of 10%; then he gets the boat. If he hasn't made it by Christmas, the sea bag on the tree tells the family the boat is on the way.

• **Selling on Time**—It hasn't been easy to sell banks the idea of selling boats on time. Some dealers have been arranging financing on their own. Big outdoor motor builder, Evinrude Motors, division of Outboard Marine Corp., started a major drive last year to sell bankers on the size and vitality of the industry. But so far as Glasspar knows, no boatbuilder has pressed the idea before. Glasspar came up with statistics to prove that the repossession rate for boats is lower than for any other financed item. This—along with the prospects for new savings accounts—won the banks over.

So far, only Glasspar's California dealers are using the Boat-in-the-Bank plan. If, as the company's fall sales

DEALERS move out of the back yard into swank showrooms on highways and boulevards as well as mid-town.



Massive new billet mill rolls blooms into rounds for tubes or billets for wire in continuous operation through six stands of rolls. It's one of the most modern billet mills in the world. Entire unit was installed in only 480 hours.

STILL MORE PROGRESS

New $6-Million Mill At Pittsburgh Steel Improves Quality, Boosts Efficiency

The march of Progress that began eight years and 111-million dollars ago at Pittsburgh Steel Company has taken another surge forward—this time with installation of a six-million dollar continuous billet mill.

Duplicated by only one other steel producer, the new primary rolling unit will give Pittsburgh Steel's customers faster delivery and insure continued uniformity of product.

Teamed up with the other major projects in Pittsburgh Steel's Program of Progress, the new six-stand "straight-ahead" mill will help maintain the Company's competitive position, thereby increasing its earning potential.

• **Part of Program of Progress.** The new billet mill marks completion of the Company's blast-furnace to cooling yard rebuilding of primary steel-making facilities. Coke ovens, blast furnaces, open-hearths, soaking pits, blooming, billet and bar mills have been rebuilt and modernized since the Program of Progress got underway.

More specifically, this new 30-inch billet mill, with its six alternating horizontal and vertical stands of rolls can process a wider range of billets for wire and rounds for tubes than the old 28-inch mill it replaces. Thus, new and wider markets for Pittsburgh Steel's products are being opened. The **plus** quality it provides is reflected in finer surface finish and closer size tolerances.

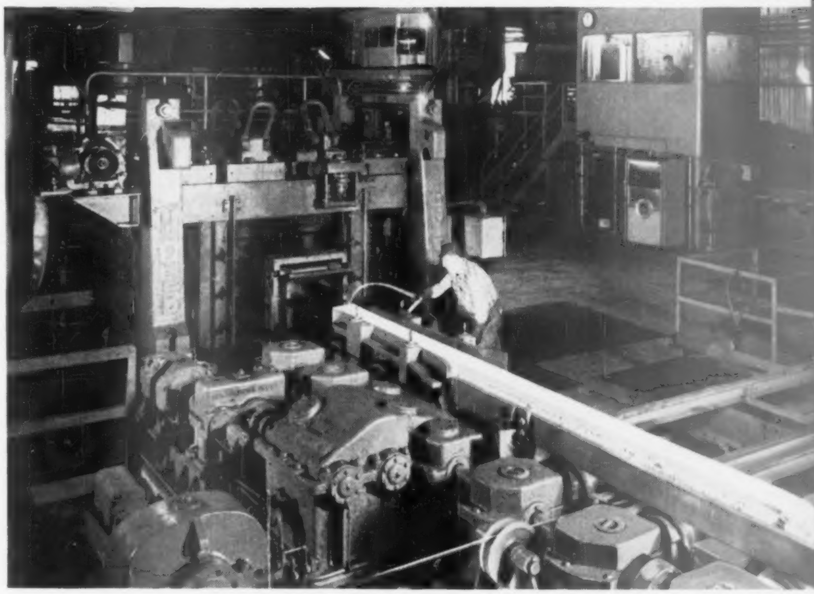
For these reasons, Pittsburgh Steel is gratified that construction of the new billet mill at its Monessen

(Pa.) Works was successfully carried out despite the large investment required, the lack of adequate provision for depreciation in our tax laws, and the dip in demand for steel during the past year.

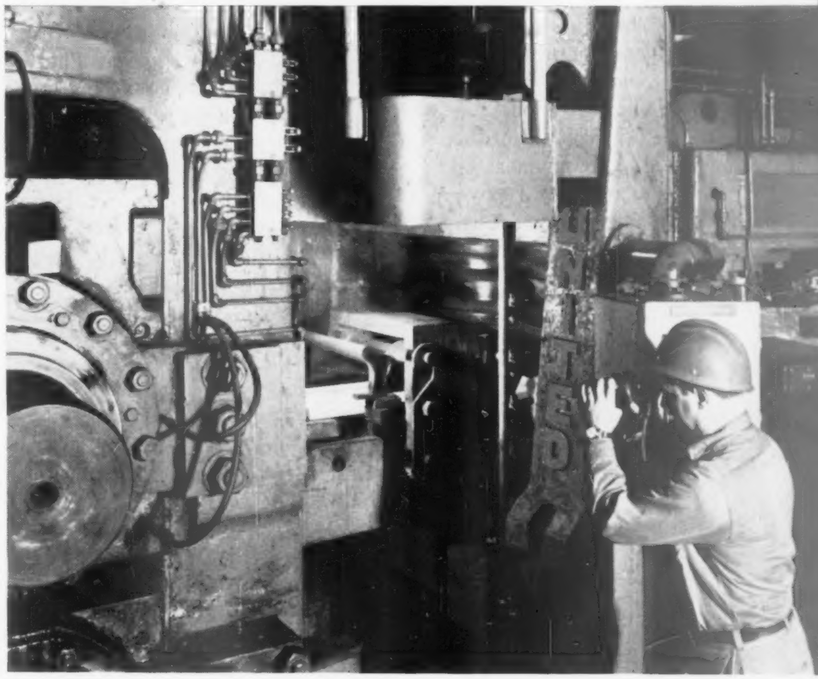
Credit for speedy installation of the mill with a minimum of lost operating time must be given to the ingenuity of the operating and engineering departments. By careful planning they kept the old mill in operation—did much of the preliminary installation while hot steel was being rolled above and beside the construction crews.

Then, on August first, the old mill was shut down and installation of the massive unit began as a round-the-clock operation. A mere 480 hours later—as engineers and millwrights—superintendents and electricians—metallurgists and mill crews watched anxiously, a button was pressed and the first bulky, red-hot, six-ton bloom was successfully reduced in dimension and lengthened into a billet in the speeding rolls.

This engineering achievement is typical of the spirit of the new Pittsburgh Steel Company. It stems from a quiet determination to modernize and improve its facilities—to widen and deepen its markets—to diversify its product line—so that all may benefit alike—customers—employees—stockholders and our general economy.



Bloom enters first of six roll stands—three of which are horizontal and three vertical for unique rolling action which assures uniformity.



Quality. Rolling temperature has important bearing on quality and is checked here by inspector with optical pyrometer as billet enters final roll stand.

Deftly, skilled operator in pulpit regulates mill speed and roll pressure—important factors in maintaining quality and dimensional accuracy.

Pittsburgh Steel Company

Grant Building • Pittsburgh 30, Pa.

P

District Sales Offices

Atlanta, Chicago, Cleveland, Dallas, Dayton, Detroit, Houston, Los Angeles, New York, Philadelphia, Pittsburgh, Tulsa, Warren, Ohio

figures indicate, the idea takes, time-selling should be a major factor in the industry the country over.

• **Boost for Yearend Sales**—Glasspar picked the fall to launch the plan for two reasons: first, to capitalize on Christmas; second, to fatten out the yearend months, which traditionally have been lean ones for showrooms and factories. Boat companies usually do up to 60% of their year's business by June.

"Don't come unstrung when September comes," a new Glasspar promotion booklet counsels its dealers. The company introduced its 1959 boats this year to the 1,200 dealers who handle the bulk of its distribution in August and September instead of waiting, as it usually does, till late fall and early winter. It held seven dealer previews around the country within two months. The result: its best fourth-quarter sales ratio yet. Last year, Glasspar did 15% of its \$3.8-million annual volume in September, October, and November. This year, it expects to do in those months 20% of the much bigger estimated \$6.5-million.

• **Bonus for Dealers**—Another device to spread the business around the calendar is to put more emphasis on an extra 5% discount to dealers who take boats in the last four months of the year. This discount has been available before, but few dealers have taken advantage of it. This year, Glasspar is pointing out that the 5% saving covers the cost of both transportation to the showroom and the financing on the boats all winter if they don't sell. The great point is to get boats where people can see them. "You can't sell boats out of a catalog," says Glasspar's sales director, Jack Brown.

II. Tiller to Till

Recession or no, the industry will finish 1958 with an impressive amount of money in its till. Observers estimate that some 30-million Americans will spend about \$2-billion in 1958 all told—including motors, accessories, fuel, and boat club memberships.

Small boats, powered by outboard motors, are getting an increasing share of the total. Pleasure boating, as differentiated from cruising in big yachts, is developing into a major U.S. hobby among people who want to do things for themselves (BW—Nov.15'58,p58).

Fastest-selling small boats under 20 ft. are outboards made of glass fiber reinforced with plastic resins (BW—May18'57,p108). They account for about 20% of small boat sales this year, against 5.4% in 1955, Glasspar reckons. Next year glass fiber boatmakers hope to capture 40% of the market—and from then on, a majority of the field.

• **Price Edge**—In the last two years


HYATT MADE IN U.S.A.
HYATT
UNERRING ELECTRONIC CONTROLS ASSURE ROLLER BEARING QUALITY NEVER BEFORE ACHIEVED IN QUANTITY!
Ultra-precise control of internal diameters and clearances helps HYATT Hy-Rolls run smoother, last longer, prevent troubles due to excessive heat and vibration frequently generated by inferior bearings. *For maximum performance per bearing dollar, insist on . . .*
HYATT HY-ROLL BEARINGS
FOR MODERN INDUSTRY
HYATT BEARINGS DIVISION • GENERAL MOTORS CORPORATION • HARRISON, NEW JERSEY
NO BEARINGS carry radial loads like cylindrical bearings . . .
and NOBODY knows them like HYATT

prices of glass fiber boats have become competitive with boats of wood and aluminum. Glasspar's retail prices run from $595 for its 14-ft. Lido runabout to $2,695 for its 19-ft. Mariner cruiser. Motors will run roughly $500 to $850 more. Glass fiber boats have an edge in lower labor costs, but, till recently, materials costs kept prices higher.

• **Leaders**—Glasspar figures that before the recession hit, there were 2,000 firms turning out glass fiber boats, if you count in back yard boat shops. Now it feels there are about 400 active companies, with about 15 major ones. Pres. L. J. Neiger believes that within a decade the industry will be led by half a dozen or so healthy companies. The leaders, according to the trade, include such concerns as Crosby Aeromarine Co., Lone Star Boat Co., Molded Fiber Glass Boat Co., Whitehouse Reinforced Plastics, Dorsett Boat Co., and Winner Mfg. Co.

III. Into the Open Seas

Glasspar, under Neiger and three associates, was born in 1949 in a Santa Ana back yard. It outgrew the yard, a garage, a barn, and four years later had a full-fledge production facility. In 1953, sales reached $500,000.

Till then, this business had been mainly local or, at best, regional. In 1954, Glasspar took the plunge toward national coverage. Since freight is a big item, this meant new plants. It opened a second plant in October, 1954, in Nashville; a third a year later in Olympia, Wash. A year ago, it added a plant at Colonial Heights, Va.

• **Pros Take Over**—Meanwhile, dealers were changing. Traditionally, boat shops were small, out-of-the-way operations, run by boat buffs catering to boat buffs. Often dealers sold boats almost secondarily, on the strength of their outboard motor franchise.

Other businessmen—appliance dealers, for instance—who knew merchandising if they didn't know too much about boats, saw the potential. These new dealers, and some of the old ones, began to recognize that the customers, too, were different. No longer was the average boat buyer a salty expert; often he didn't know port from starboard. As a mass market, he required mass-merchandising techniques.

Gradually, dealers have emerged from their "back alleys." They now occupy choice highway locations or spots on main boulevards of towns. Their showrooms feature plenty of space and glass, and at least one has a little demonstration lake right on the property. Showrooms stay open at nights and on weekends. Dealers toot their horns more in local newspapers.

"The break came when some dealers began to merchandise, about three years

ago," sums up Glasspar's Jack Brown. "It was up to the companies to see and meet their needs."

• **Expansion**—Till then, Glasspar had been chiefly concerned with keeping production up with demand. It felt that one sales representative per plant was enough. Then manufacturers as well as dealers began to catch up on merchandising. Their own success forced them to. With hundreds of new companies crowding the field, Glasspar reasoned that dealers would pick the suppliers who helped them the most.

Glasspar's first move was to put out a dealer manual with full technical and marketing information on the Glasspar line. It began to supply point-of-purchase advertising. This year, it is offering neon action signs. Next spring for the first time it will advertise in national consumer magazines: True, Sports Illustrated, and Popular Boating, to start with. Through showrooms and magazine ads it is distributing a booklet, A Lesson for Landlubbers, written by Charles Genuit, former editor of Water World.

• **Gauging the Market**—Increasingly, Glasspar is moving into the sophisticated waters of market research. Dealers have lots of questions, and Glasspar finds itself researching such subjects as availability of navigable waterways, state and county laws governing boating, and regional color preferences.

National production and distribution gives the company insight into regional likes, and, with four plants, it can meet unexpected shifts in the market more easily than if California was the sole source. Early this year, for example, it had decided to produce its 16-ft. Avalon runabout strictly as a pleasure craft with luxury trimmings—chrome hardware, upholstered seats. Then it discovered that in some parts of the country people were using the Avalon for fishing. So it added a stripped-down, businesslike model in those areas.

• **Eye for Styling**—Market research gets into styling, too. To counteract an instinctive distrust of reinforced glass fiber as a boating material, the company incorporates as much wood as possible in interior trim.

Every customer who buys a Glasspar is quizzed after a time to see how he reacted to it, how he uses it, what he would like in his next boat. Another market-testing device is to send boat caravans on the highways each year before the formal introduction of the lines. The caravans go out unannounced, stop at traffic centers along the route to see how people react.

Its marketing plans for the future will be greatly influenced by the results of this fall's campaigns. Final figures won't be in till after the first of the year, but first indications are that it has made real progress, both in selling on time and selling year-around. END

In Marketing

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CBS Is Abandoning "Must-Buy" Lists In Selling Time on TV Network

Columbia Broadcasting System is abandoning a basic method of selling time over its TV network. Advertisers no longer will be required to buy time on a specific list of stations in order to advertise over the network. These "must-buy" lists have been under attack, along with certain other network policies, as a possible violation of the antitrust laws.

CBS is soon to release a letter to its affiliates explaining details of its new selling policy. **According to trade reports, the network will substitute some form of minimum dollar purchase and a minimum number of stations instead of specifying the basic 60 stations.**

National Broadcasting Co. last March told the FCC it was "considering various types of minimum-order requirements," and is expected to follow suit in eliminating "must-buy" lists soon.

The third network, American Broadcasting Co., already uses a minimum dollar purchase plan.

Last year, a study group headed by Roscoe L. Barrow submitted to the FCC a report that strongly criticized the "must-buy" practice, as well as the option time arrangements by which affiliated stations make certain hours of the day available to networks for sale to national advertisers (BW–Oct.12'57,p113). **Some observers believe that in giving up their "must-buy" lists, the nets are heading off possible legal action to eliminate the practice, and laying a firmer ground work for defending option time, which they contend is vital to network operations.**

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Toledo Store's Stag Night Draws 3,000 Male Shoppers; Women Barred

Men are getting plenty of attention from department stores this fall. On the heels of the British fashion show staged for male customers by Dallas' Neiman-Marcus store (BW–Oct.25'58,p46), the Westgate branch of the Lion Dry Goods store in Toledo last week put on its "stag night" during which store police kept all women out of the store from 6:30 p.m. to closing time at 9:00 p.m. The idea was to let men do their Christmas shopping without battling hordes of lady shoppers.

Westgate Lion provided decor especially for the men. **Clerks wore evening dresses, models paraded lingerie, corsets, robes, sports clothes and dresses; pretty girls wandered the aisles handing out candy, and a lady Santa Claus dressed in tights listened to what shoppers wanted for Christmas.** Every minute a $10 or $15 door prize was handed out, climaxed by a $500 mink stole.

The store, part of Mercantile Stores Co. Inc.'s chain of over 50 department stores and branches in the Midwest, West and South, made little effort to promote the event other than mailing notices to charge account customers and running a small newspaper ad warning ladies they couldn't get in that night. But nearly 3,000 men showed up to browse through the store, along with scores of women pleading to be let in. **"They use all sorts of excuses," declares store manager Robert Faber, "but it falls on deaf ears. They just can't get in that one night."**

Faber adds, "The evening was a huge success from every point of view."

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D-X Sunray Oil Co. Acquires Tidewater's Midwest Outlets

D-X Sunray Oil Co., Tulsa, last week acquired the mid-continent area marketing facilities of the Tidewater Oil Co. Involved are service stations and bulk station outlets in 10 states.

The acquisition marks further expansion for D-X Sunray, which has been enlarging its marketing operations for several years. Since 1955, the company reports, it has constructed or modernized more than 500 service stations in the Middle West. Recently, D-X Sunray acquired substantial facilities from Gafill D-X Oil Co., South Bend, Ind.

Tidewater's withdrawal from marketing its gasoline and fuel oil in the mid-continent area is part of its effort to concentrate its selling of these products on the two coasts to be nearer its refineries in California and Delaware.

D-X Sunray acquired from Tidewater 81 urban service stations, 16 bulk plants, and the contracts to serve about 100 Tidewater jobbers and their dealers. D-X Sunray Pres. R. W. McDowell announced that his company's products would be available at the stations by Jan. 1.

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Marketing Briefs

Grand Marnier Liqueur, an 80 proof cordial, is being advertised on a New York FM station, and the importer says the move may be a "prelude to our advertising approach in various sections of the country." Isolated radio stations have accepted other alcoholic beverage advertising, but the liquor industry, through Distilled Spirits Institute, recently reaffirmed its ban against broadcast advertising (BW–Nov.29'58,p96).

"Beer flights" are under consideration as an answer to the luxury champagne flights some airlines offer. North Central Airlines is thinking of inaugurating such flights on its run between Milwaukee, home of a lot of beer, and Chicago.

Phillips-Van Heusen Corp. has acquired controlling interest in Kennedy's, Inc., a 15-unit chain of men's clothing and furnishings stores in New England. The acquisition is Phillips-Van Heusen's first move into the retail field.

Volkswagen of America, Inc., will be seeking a new advertising agency to replace J. M. Mathes, Inc., which resigned the account last week. Reportedly, dissatisfaction of Volkswagen dealers with the advertising program led to the agency's resignation. A committee of dealers will select another agency.

BEST NORTHERN LIGHTS COME IN SMALL PACKAGES!

Someday, soon, *aurora borealis* may not be the only light in the far northern sky. Small atomic "package" reactors already are available to make electric power a practical reality in very remote regions. They may presage new eras of development and progress on frontiers long overlooked.

Vanadium Corporation of America is a major producer of the uranium used to fuel such reactors, and of the alloys that help make atomic reactors —and so many other things—possible. VCA master alloys give added "muscle" to steels. And they impart other vital qualities, too, among them heat resistance, corrosion resistance, and long-term endurance. Indeed, *without* alloys, little of the world's material progress would be realized . . . and the bright, better things of tomorrow would remain locked in imagination! Vanadium Corporation of America, 420 Lexington Avenue, New York 17, N. Y.

VANCORAM

VANADIUM CORPORATION OF AMERICA


PHOSPHORIC ACID
VICTAMINE C
VICTAMINE D
IT PAYS TO SEE VICTOR
PHOSPHORUS TRICHLORIDE
METHYL PARATHION
PHOSPHORUS OXYCHLORIDE
ALKYL PHOSPHITES
SODIUM FORMATE
MONOSODIUM PHOSPHATE, MONOHYDRATE
THIOPHOSPHORYL CHLORIDE
BENZENE PHOSPHORUS DICHLORIDE
SODIUM IRON PYROPHOSPHATE
ALKYL PHOSPHITES
DIPHENYL PHOSPHITE
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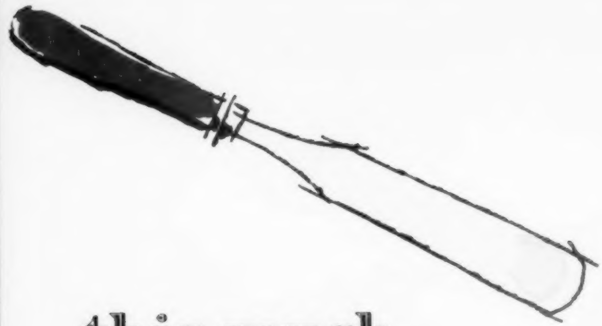


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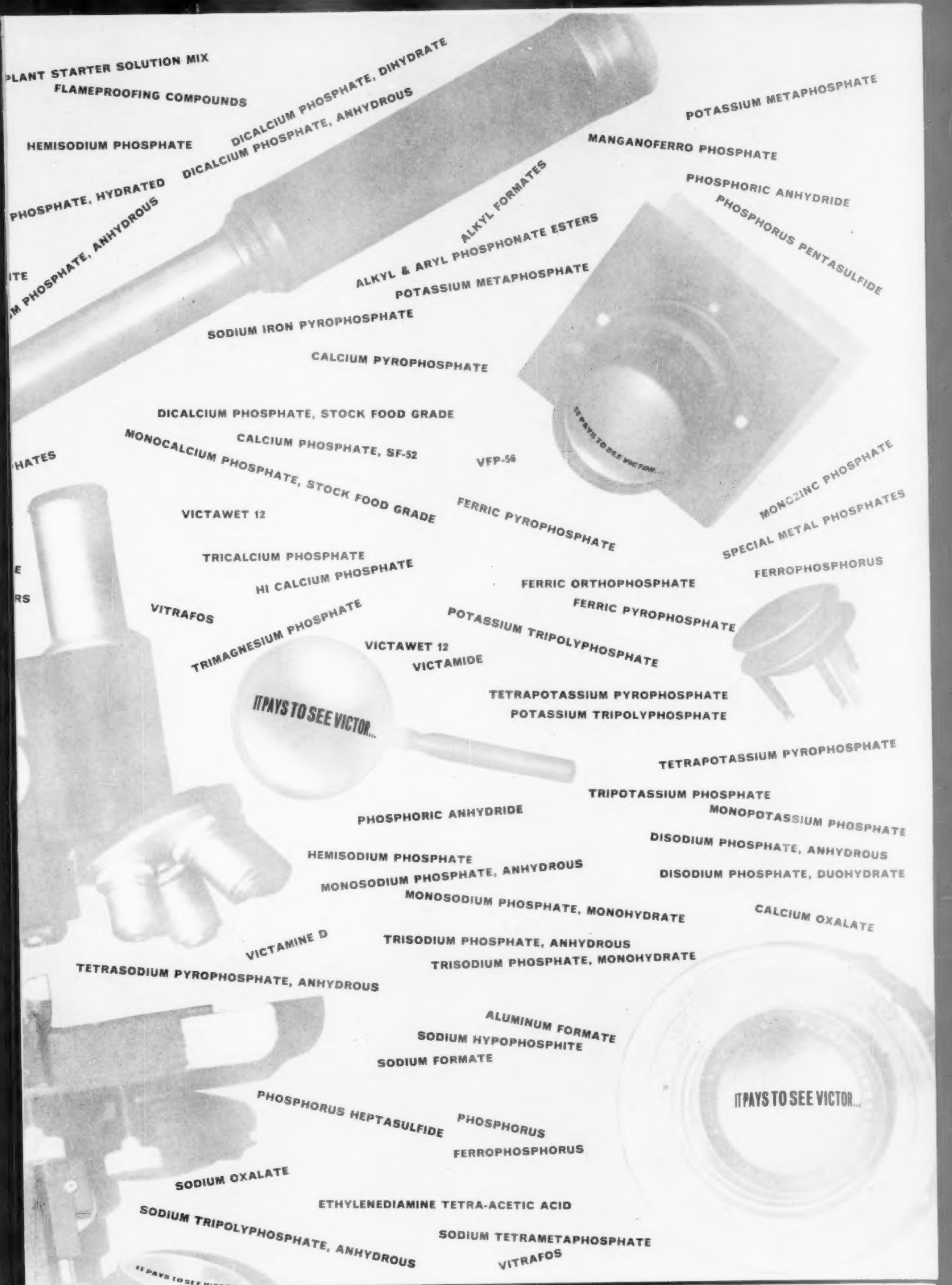
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In Business Abroad

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MORE NEWS ABOUT BUSINESS ABROAD ON:

- **P. 78—Wave of mergers strengthens West Germany's big steel industry.**
- **P. 84—Oil-rich Iran becomes mecca of the Middle East for U. S. companies.**

Esso and Shell Sign Long-Term Contracts To Help Argentina Expand Oil Output

In its razzle-dazzle oil negotiations, Argentina last week tossed aside an $800-million deal with Floyd Odlum's Atlas group, but then scored a real triumph by getting Esso and Shell to sign drilling contracts.

Last summer, Argentina had tentatively approved a $1-billion package of offers from U. S. and foreign companies for help in finding oil domestically to replace the $350-million spent on oil imports. Atlas' offer was tentatively O.K.'d, but not formally accepted. Meanwhile, Esso, affiliate of Standard Oil Co. (N. J.), and Shell—both long-time marketers in Argentina and proponents of traditional oil "concessions"—saw themselves being squeezed out of the rich local market.

Last week, after six months' secret negotiations, Esso and Shell, in effect, agreed to Buenos Aires' official "no concessions" oil policy. But Argentine observers think the two companies got a pretty good deal—far closer to the concession principle than the $200-million worth of drilling contracts signed earlier this year by Pan American International Oil, Union Oil, and others.

Esso will invest between $23-million and $47-million over 10 years in prospecting. Shell will put in between $17-million and $28-million over seven years. Both companies' marketing organizations will sell the oil, with minimal supervision from YPF, the government oil company. **Most important, Esso and Shell will get the equivalent of concessions for 20 years—after the initial prospecting period during which Argentina hopes to become self-sufficient in oil.**

Simultaneously, with this announcement, the government said the Atlas deal was "hopelessly stuck," supposedly because of doubts on financing and high costs. This week, David A. Stretch, president of Atlas, arrived in Buenos Aires to try to salvage the deal. But **most local observers seemed happy over the government's action:** The oil program now is $240-million, not the vaunted $1-billion, but more "respectable" with Esso and Shell willingly participating.

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Cuban Rebels Disrupt Island Economy, Put the Squeeze on Foreign Interests

Havana observers now claim that Cuba's two-year civil war between Gen. Batista and rebel leader Fidel Castro will reach a showdown in the next two months. The decisive factor is Castro's slow strangling of the island's normally rich economy. The telling blow to the Batista government may be wide-scale interference with the crucial sugar harvesting—which takes place next month—and rebel control of many sugar ports.

Caught in the middle are U.S., British, and other foreign companies. Castro at various times has kidnapped or simply intimidated their personnel. And Batista has failed to prove his boast of bringing "political stability" to Cuba.

Here are highlights of the island's economic troubles:

- Cubana de Aviacion, already launched on a $20-million jet-buying program, is running New York-Havana and intra-island with practically empty planes.
- The huge, famous Bacardi rum plant on the island has closed down because of rebel interference.
- U.S., British, and Canadian casualty companies are paying out large sums under "riot" clauses, particularly to sugar mills constantly raided by Castro forces.
- Havana car owners are boycotting Shell's gas stations because the brother of the president of Cuba's Shell Oil Co. (British-owned) persuaded the British government to sell 17 fighter planes to Batista.
- Banco Nacional de Cuba, the central bank, is forcing Cuban and foreign banks (Royal Bank of Canada, Bank of Nova Scotia) to buy government bonds.

The most ominous sign so far was last week's revolt of 30 army staff officers, many of whom were Castro's contemporaries at the University of Havana (now closed down).

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Mexico's New President Invites Foreign Capital to Aid Economy

With Mexico's big showy inauguration behind him, new Pres. Adolfo Lopez Mateos has settled down fast to tackling the two major problems inherited from the days of his predecessor—labor unrest and spiraling prices.

To create new jobs for Mexican workers, the president called out encouragement to U. S. and local private capital to start new industries. He went so far as to announce that mixed Mexican-foreign ventures in such previously restricted fields as petrochemicals would be permitted.

To get the economy under control, he appointed a cabinet weighted heavily in favor of economic, financial, and technical brains. For Finance Minister, he picked one of Mexico's top economists, Antonio Ortiz Mena. For president of Pemex, the state-owned oil monopoly, he chose Pascual Gutierrez Roldan, president of Altos Hornos, the country's biggest steel company.

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Business Abroad Briefs

Tokyo Shibara Electric Co. Ltd., (Toshiba), International General Electric's 20%-owned Japanese offshoot, has announced a new export program. In markets outside the U. S. and Japan, Toshiba will sell GE trademark transistors, electronic "gadgets," tubes, and probably GE radio and TV sets. They're to be stamped "GE Made in Japan."

Merger in Steel Industry

1938 **STEEL GIANT was Vereinigte Stahlwerke, an empire of 177 companies dominated by Thyssen, Phoenix, and Rheinstahl. It produced nearly 50% of Third Reich's 17.9 million-ton steel output, and 21% of its coal.**

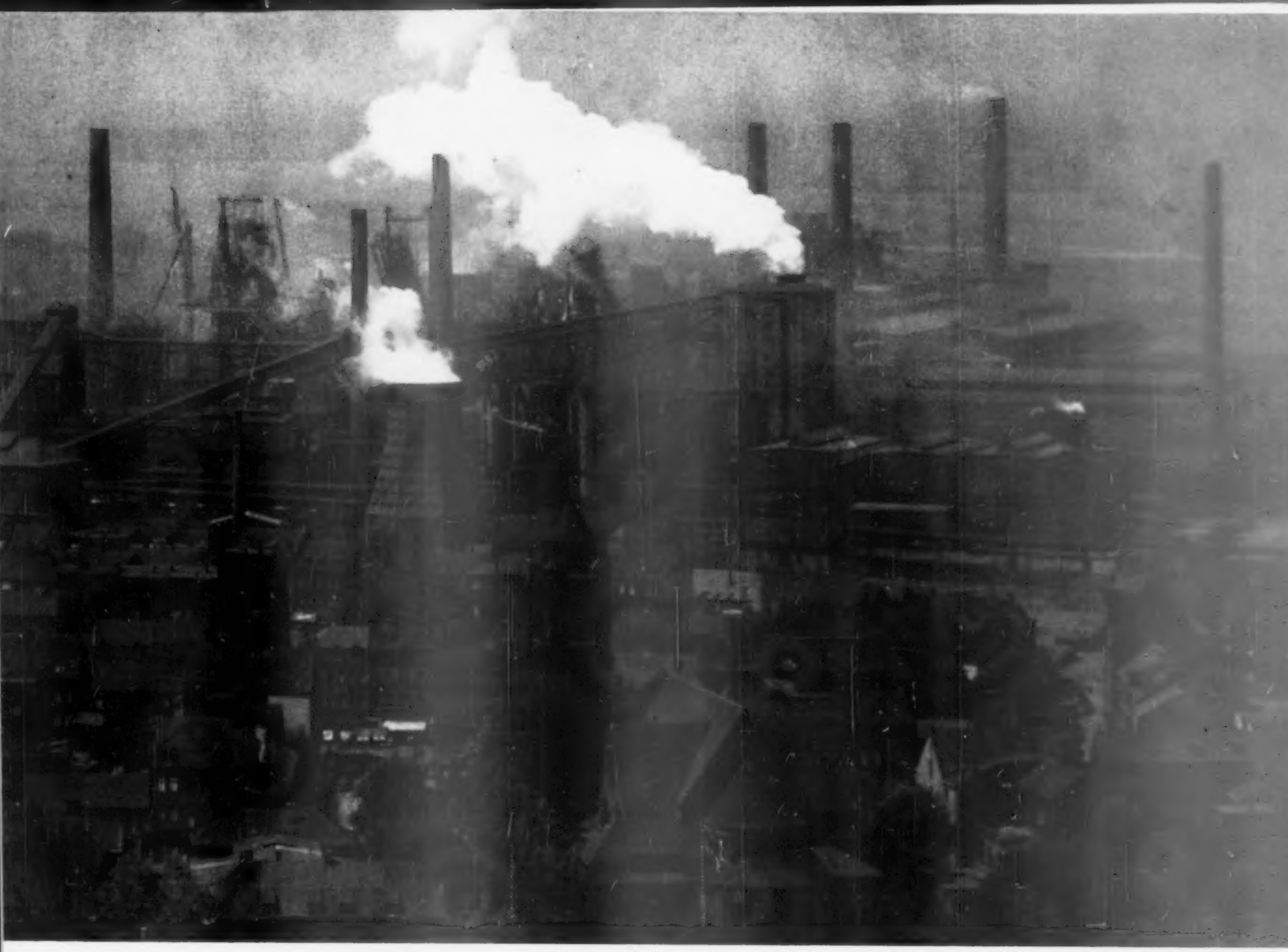
1948 **DECONCENTRATION policy of Allies split Vereinigte into 13 steel producers. Formation of European Coal & Steel Community in 1952 opened door to new steel "mergers."**

1958 **RECONCENTRATION is in full swing, as industry produces 23.1-million tons—better than prewar output. Biggest move will be linkup of Thyssen (picture) and Phoenix, creating giant with nearly 6-million-ton ingot capacity, close to $1-billion in annual sales.**

In the grimy, bustling Ruhr, West Germany's industrial heartland, the atmosphere this week was business-as-usual: factory chimneys belching smoke, chauffeur-driven Mercedes carrying executives to appointments, and the chill of early winter biting the air.

But inside banks and company offices, the talk was all about the impending birth of Germany's biggest steel complex. In short order, August Thyssen-Huette A. G. (picture) and Phoenix-Rheinrohr A. G. will join forces to become the steel giant of the Ruhr. All that is needed is the approval of the High Authority of the European Coal & Steel Community, which has the last word on proposed mergers of its member companies.

• **Merger Trend**—The proposed Thyssen-Phoenix combine is the latest example of the "reconcentration" of West German industry. Shattered by war damage, then splintered into smaller units by Allied occupation forces, German industry was only beginning to get back on its feet five years ago. The "economic miracle" of reconstruction and expansion since then is now an old story. But the latest step—reconcentra-



Creates a New Giant in the Ruhr

tion of production in the hands of a reasonably small number of companies —is brand new.

The trend in the steel industry, for one, brings back memories of Big Business and Hitler's Third Reich. Both Thyssen and Phoenix were keystones in the famed Vereinigte Stahlwerke (United Steelworks), an empire of 177 companies serving up 49% of all the steel and 21% of all the coal that the Nazis needed.

• **Economic Overtones**—Today, the increase in mergers has hardly any political overtones. In fact, the reasons seem to be wholly economic.

The German steel industry is up against stiffer competition in export markets and slower sales at home than at any time since the war. Ingot steel output hit 24.5-million metric tons last year. For 1958, the figure will be closer to 23-million tons. Thyssen, as one example, is operating at only 85% of capacity.

Beyond that, the steel industry has been short of capital and—as close observers point out—short of top-flight management. On the financial end alone, most companies have depended on plowed-back earnings to finance postwar reconstruction and expansion.

Thus, a pooling of resources seems to make sense. Bonn officials and Ruhr industrialists, mindful of Allied decartelization decrees, still debate the subject of "reconcentration." But they argue less about bigness as such than about the precise point when—as they see it—bigness becomes bad for the economy.

For instance, the Thyssen-Phoenix combine—linking the No. 5 and No. 2 ingot steel producers—would have sales approaching the $1-billion mark, bigger even than Krupp. But German steel executives carefully point out that the proposed company's ingot output would amount to only 21% to 24% of the total market. They also distinguish between "cartels," which control markets, and "reconcentration," which as in the case of Thyssen-Phoenix means primarily a merger of financial interests.

I. Steel Breaks the Trail

Reconcentration is going strong in steel—and, to a lesser extent, in other German industries.

Mannesmann A. G., fourth-ranking ingot-steel producer (nearly 2-million tons in 1957), recently converted six of its 95%- to 100% owned subsidiaries into divisions or works departments. Fifth-place Kloeckner-Werke A. G. (1.9-million tons) soon may do the same with some of its subsidiaries.

Dortmund-Hoerder Huettenunion A. G., the No. 1 producer (2.8-million tons), has applied to the Coal & Steel Community to take over 51% of the shares of Huettenwerke Siegerland, plus part or all of Thyssen's 35% share in the same company. (Dortmund, in turn, is 40% owned by the Netherlands' leading steel producer, Koninglijk Nederlandsche.)

Other producers such as Gutehoffnungshuette and Hoesch are consolidating their prewar holdings. Hoesch and Mannesmann last year established a jointly owned company, and now work fairly closely together.

Then, you have the tangled case of Krupp's Huettenwerke Rheinhausen A. G., No. 2 steel producer (2.06-million tons). Krupp, under an Allied decree, was supposed to sell Rheinhausen last March, but said it could not find a

BLUE CHIPS OF THE RUHR

IRON, STEEL, AND ASSOCIATED PRODUCERS	TOTAL SALES* (in millions of dollars)
Krupp	$850
Rheinstahl	666
Mannesmann	660
Gelsenkirchener	643
Gutehoffnungshuette	600
Phoenix	531
Thyssen	410
Hoesch	395
Kloeckner	325
Dortmund	278

*Sales for year Sept. 1957 to Sept. 1958, including iron, steel, coal, machinery.

Data: Federation of West German Iron & Steel Industries.

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buyer. Criticized particularly by the British but supported by Chancellor Adenauer, Krupp is likely to hang on to Rheinhausen.

More important, Rheinhausen has applied to the Coal & Steel Community for permission to buy control of Bochumer Verein. That would make up for the big Essen foundry that Krupp lost during the war. And once permitted, acquisition should be no trouble: Alfried Krupp's friend, Swedish industrialist Axel Wenner-Gren, has a controlling interest in Bochumer.

• **Regrouping**—Then, look at other industries and businesses:

The chemical giants—Bayer, Hoechst, and Badische Anilin- & Soda-Fabrik that grew out of prewar I. G. Farben—have gradually developed closer relations. For one thing, they jointly formed Bunawerke Huels GmbH. to make synthetic rubber. The Big Three own 50%; Chemische Werke Huels, another Farben successor, holds the rest. However, there are no signs that the Big Three, highly successful as separate companies and often fiercely competitive, want to regroup at the top level.

The "electrotechnical" industry, as West Germans call it, now is dominated by three giants—Siemens, AEG (Allgemeine Elektrizitaets) 10% owned by General Electric, and Standard-Elektrik-Lorenz wholly owned by International Telephone & Telegraph. All three are considerably larger than they were prewar.

Big banks—the Deutsche, Dresdner, and Commerzbank—were carved up into small units at war's end. Later, they regrouped at the regional level, and now have come practically full circle to their prewar form. At the same time, the trade unions are amalgamating their six banks into a catch-all Gemeinwirtschaftsbank Nordrhein-Westfalen A. G.

• **Other Empires**—Not to be overlooked are the individual operators with diversified empires, such as Hermann Krages, Willy Schlieker, Rudolf Oetker, and Friederich Flick—all multimillionaires. A case in point is former Nazi-sympathizer Flick. Since the war, he has gone downhill and uphill financially with roller-coaster speed. He sold most of his German steel and coal holdings—but then used the cash to buy similar holdings in France and Belgium. Now he is back in force in West Germany, holding big blocks of stock in automobiles (Daimler-Benz, Auto Union), foundries, plastics, machine building, cellulose, cement, and aircraft.

II. A Half-Hearted Decree

Believers in "deconcentration" may worry about all this. But most Germans see the need for more concentrated industrial power simply to meet tighter competition within the new six-nation Common Market.

Postwar decartelization, of course, was more than a paper exercise. Along with bomb damage, many companies suffered outright dismantling of plant and equipment. Then, the decartelizers went to work—in the case of Vereinigte Stahlwerke splitting it into 13 steel companies and five coal and processing companies. But put in historical perspective, decartelization was in many instances both controversial and half-hearted.

• **Open Door**—Two things really opened the door for reconcentration. The Allies made no written stipulation that the new West German republic must prevent reconcentration. Then, in 1952, virtually full power over the German iron and steel industry was vested in the newly organized European Coal & Steel Community.

Since then, despite the formation of a Federal Cartel Authority, the German government has not gone out of its way to block reconcentration. It has even given the steel industry some tax privileges to encourage expansion. And the industry points to concentration in other countries.

In France, three companies account for 41% of steel output; in Britain, 33%; and in Belgium, 66%. While the federal court here has ruled against the proposed Bethlehem-Youngstown merger, it's still true that U.S. Steel has almost 30% of the country's steel-making capacity.

• **Stock Swap**—Thyssen and Phoenix, though now separately managed, already have a connecting link—the stock holdings of the late Fritz Thyssen's daughter, Countess Anita Zichy, and his widow, Amelie. Countess Zichy owns between 36% and 39% of Thyssen-Huette. Through a trustee group, Frau Thyssen owns between 11% and 12% of Thyssen-Huette, and also a crucial

52% of Phoenix-Rheinrohr. The middleman for the proposed Thyssen-Phoenix merger is Robert Ellscheid, who is simultaneously chairman of the trustee group, attorney for the Thyssen family, and chairman of Phoenix's supervisory board.

The proposed merger would work this way: There would be a realignment of stock ownership within the Thyssen family. The most important change would be a swap of Frau Thyssen's Phoenix stock for newly issued shares in Thyssen-Huette. Stock ownership of Phoenix thus would come under the management of Thyssen-Huette. To help finance the merger, Thyssen-Huette would float a 20- to 25-year bond issue of \$12-million to \$24-million.

• **Combined Operation**—If the merger comes off all right, Hans-Guenther Sohl, Thyssen chairman, will head up the combined operations. This was opened for him last year when Fritz-Aurel Goergen resigned as chairman of Phoenix's management board. Goergen lost the battle with Thyssen-family attorney Ellscheid, who favored the merger.

Linked together, Thyssen-Phoenix will employ about 66,000 workers and have ingot-steel capacity of nearly 6-million tons. But in most areas—for instance, Thyssen's joint venture in Germany with Armco Steel Corp. and Phoenix's pipe-making operations in Canada—the two will operate separately. Phoenix will go ahead and move next year into its new 23-story skyscraper in Duesseldorf. Thyssen will soon complete its \$200-million expansion program; Phoenix will round out its \$280-million expansion over the next year.

• **Voice of Labor**—Not all moves toward reconcentration seem to be going as smoothly as Thyssen's. Mannesmann's recent decision to convert separate subsidiaries into divisions or works departments was aimed at various tax savings. But German labor landed on Chmn. Wilhelm Zangen, claiming that the unions would no longer have a voice in management of these former subsidiaries.

• **Stiffer Policy**—At the moment, Adenauer himself is leaning slightly toward a stiffer policy on reconcentration. The Federal Cartel Authority can dissolve contracts if it can prove—after receiving a complaint—that a company controls more than 20% of the market. But it can't alter the structure of the company allegedly controlling the market.

Adenauer has spoken of changing the laws. Several possibilities: strengthening the Cartel Authority, special taxation on reconcentrated companies, full disclosure of companies' finances.

But no one in Bonn—or in the Ruhr—expects anything very drastic to happen. **END**

Photographed by Robert Yarnall Richie

Iran Steps Up Public Works

Larger share of oil revenues is being channeled to the country's seven-year development program. U. S. companies have the majority of contracts in this project.

While riots, coups, and civil wars swirl through neighboring Middle Eastern countries, Iran is quietly stepping up its billion-dollar seven-year plan for economic development. The plan started slowly in 1955 with a cost estimate of about $1.1-billion; now the price tag has been raised to $1.4-billion.

About two-thirds of this money is coming from Iran's revenues from oil. Most of the remainder will have to come from international funds and other foreign sources, principally the U. S.

Meanwhile, U. S. engineering and construction companies are beginning to dominate the list of projects—a sharp switch from the days even 10 years ago when Iran was regarded as strictly in the British political and commercial orbit. It's a case of business following the flow of dollars.

By next spring, the development project—which Iran calls Plan Organization—will have spent about $500-million. To meet that target, the government expects to borrow about $80-million from the World Bank and $40-million from the U. S. Development Loan Fund.

• **Shah's Project**—The master plan was brought forth soon after Shah Mohammed Reza Pahlevi returned to the throne from exile abroad, following the downfall of Premier Mossadegh's government in 1953. The 40-year-old Shah, now at the peak of his popularity and personal power, is also pushing a 10-year program of social reforms.

The economic program aims at boosting Iran's per capita income by 3% a year through 1962 and providing a broad base for a modern economy. The revised figure of about $1.4-billion is roughly divided as follows:

• $280-million for agricultural development.

• $420-million for improved transportation and communications, including major highways.

• $490-million for schools, hospitals, sewerage, water supply, public health, housing, and community services.

• $210-million for industrial development—an amount that officials hope will be substantially supplemented by private investment, local and foreign.

• **Financial Support**—Originally, the government planned to tap 80% of its oil revenues, up to a ceiling of $188-million a year. Oil revenues are now running about $260-million a year and are expected to reach as much as $300-million in the early 1960s. So the financing from oil taxation and royalties has now changed to 60% of this income, with no ceiling set.

In the next three and a half years, Iran expects to raise around $600-million for the project from its oil income under this formula.

"Iran's need for money," says a U. S. official, "is beginning to look like India's, on a smaller scale, despite the fact that it has the biggest oil potential in the Middle East."

• **Looking for Advice**—More troublesome than the money problem is Iran's lack of administrative and technical talent. To meet this shortage the country is even more dependent on foreign aid than in the financial field.

Plan Organization's able chief administrator, Abol Hasan Ebtehaj, former governor of Iran's central bank, has called in foreign experts by the planeload. To advise him on economic planning, he now has an economic bureau headed by Edward S. Mason, former dean of public administration at Harvard University, and made up of economists working under a Ford Foundation grant. The World Bank has provided specialists in engineering and technical fields.

At the provincial level, Development & Resources Corp. of New York is acting as regional consultant for Khuzestan Province and Kerman Development Corp. of Ebasco Services, Inc., in Kerman Province. Morrison Knudsen International Contractors, Inc., and Harza Engineering Co., also U. S. companies, are building dams.

A big Italian company and a French company are working on contracts, but most are held by American outfits: Ammann & Whitney of New York, highways; Justin & Courtney, Inc., of Philadelphia, consulting engineers on irrigation projects; International Basic Economy Corp. of New York, advice on housing projects; Lichfield Whiting Panero Severud & Associates of New York, municipal power distribution; George Fry & Associates of Chicago, industrial development.

Iranians say one break for U. S. companies came in the early days of Plan Organization, when a British construction company botched its share of the road program, setting the schedule back two years. According to officials, British enterprise never recovered from this black eye, while Americans were welcomed. END

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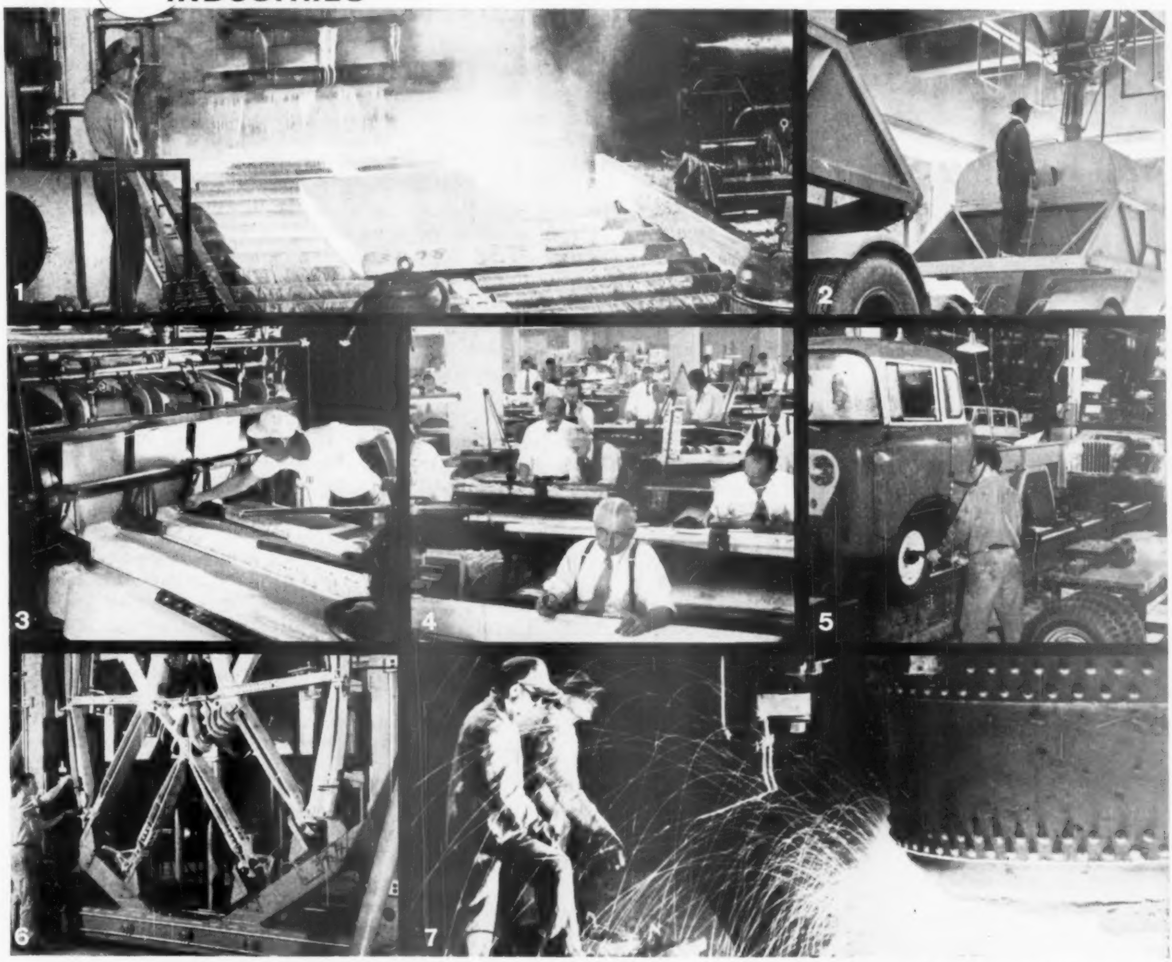

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Pay Rates Spur Missile Fight

Battle of aircraft vs. electronics industries to control lush missile business takes novel turn, as aircraft makers bid to push up minimum wage level for electronics rivals.

The long-standing fight between the aircraft and electronics industries for control of the multibillion-dollar missile business (BW—Jun.14'58,p90) has switched to a new battleground. In the new round, the electronics manufacturers are mobilizing against an effort by aircraft makers to eliminate the wage differential between the industries.

The battleground is the Labor Dept.'s Wage & Hour & Public Contracts Div. It administers the Walsh-Healey Act, under which the Secretary of Labor sets a legal minimum wage scale for government contractors.

Crying "destructive competition," the aircraft makers, joined by the aircraft industry's two principal unions, demand that electronics companies in missile work be required to pay the same minimum wage rate as do the aircraft makers. The electronics industry now enjoys a wage advantage of about 20%.

Electronics manufacturers retort that a higher wage rate for their industry would substantially boost defense costs and force out of military business some electronics companies that are primarily in civilian work.

• **High Stake**—Washington sees the aircraft industry's plea—now being reviewed by the Labor Dept.'s division—as one of the most significant ever to come up under Walsh-Healey. At stake is the future of a burgeoning volume of missile business, which is expected in about two years to match defense spending for aircraft. Over the past several years, the technological shift in defense procurement—marked by a reduction for conventional aircraft and a rapid growth for guided missiles and other automated military gear—has pushed airplane builders into fierce competition with electronics producers.

Officially, the Pentagon is standing aloof from the wage controversy. But defense officials are carefully watching the case. "Under the current emphasis on budget economies," says one, "we take a dim view of anything that would increase costs."

• **Pros and Cons**—The aircraft makers argue that they are in an unfavorable competitive position in bidding for missile contracts because their industry's wage structure, based on wide-scale union bargaining and relatively higher skill of workers, exceeds electronics industry pay scales.

What the electronics manufacturers fear is that lumping them under the Walsh-Healey minimum for military aircraft production will force up their prevailing rate for civilian manufacturing. One spokesman says it would be an abuse of the Walsh-Healey law.

Electronics, he says, has been "traditionally more cost-conscious" than aircraft "because we've got one foot in the commercial market—they pay higher wages because of loose bargaining with the unions; they know they can recoup the extra costs from the government."

• **At Issue**—The current battle started when the International Assn. of Machinists and the United Auto Workers asked a revision of the eight-year-old \$1.05-an-hour aircraft minimum, claiming the actual prevailing minimum averages \$1.90 an hour (against an estimated \$1.60 for electronics, averaging civilian and military production). The Labor Dept. agreed to make a survey, and the Aircraft Industries Assn. and the two unions proposed including in the survey electronics companies in the missile business.

The aircraft makers and unions want the Walsh-Healey definition of the aircraft industry expanded to cover missiles and "completed end-product electronics systems" incorporated in them. The Electronics Industries Assn. wants the missile industry as a separate category, or included with electronics. The Labor Dept. proposes a compromise—combining end-item missiles with aircraft but excluding electronic missile subsystems.

EIA opposes this. The contention is that it would mean higher minimums for electronics companies having prime contracts for assembly of missiles; and for a company like Philco, producing TV sets in the same plant with the Sidewinder missile, would affect pay for TV production workers.

Two main electronics industry unions—the International Union of Electrical, Radio & Machine Workers, and the International Brotherhood of Electrical Workers—have not taken a definite stand. But one IUE official says, "If there's chiseling, we agree with the aircraft industry. The electronics industry shouldn't be allowed to compete for missile contracts on the basis of depressed wages."

Odds are the Labor Dept. proposal will win, but it may take a year before the new minimums are fixed. END

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In Labor

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Ohio Unions Expected to Ask State To Legalize Integration of UC, SUB

Labor probably will look to the 1959 legislature in Ohio to legalize the simultaneous payment of supplementary unemployment benefits and state unemployment compensation. **Unions count on a friendlier legislature—and more hope for labor-backed bills—now that the Democrats control both Ohio houses.**

The SUB issue arose last week when the Ohio Supreme Court voted 5 to 2 to reverse an earlier ruling of a Mahoning County Pleas Court that SUB payments were legal (BW—Dec.6'58,p30). The high court ruled that SUB benefits are compensation to employees and, as wages, must be deducted from state UC payments. This is the position taken by James A. Tichenor, Ohio's UC administrator.

Gov.-Elect Michael V. DiSalle has indicated that he will support legislation to permit integrated payments.

Meanwhile, unions are considering an appeal to the U.S. Supreme Court.

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Unions Must Provide Membership With Financial Report, Court Rules

Unions must provide members with financial reports under the Taft-Hartley Act, the Tenth U.S. Circuit Court of Appeals ruled this week.

Twelve members of Local 83 of the Boilermakers petitioned the federal court for a new election of officers and a full accounting of the financial affairs of the local during the 18 years W. H. Shane, now an international vice-president, served as business manager.

The court held that the election was a matter for the National Labor Relations Board to decide. **But it ruled that the members, under Taft-Hartley, were entitled to a full financial accounting.**

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Meany's Arbitration in Ship Dispute Hailed by Employers as Step Forward

George Meany, president of AFL-CIO, last week handed down an arbitration decision in a dispute involving a federation affiliate, the Masters, Mates & Pilots, and 21 steamship companies in the American Merchant Marine Institute. The award gave the union some concessions, **but much less than it sought in bargaining** that led to a short strike, followed by arbitration.

The employers, apparently satisfied, described the award as "a practical solution to the issues," and one

MORE NEWS ABOUT LABOR ON:

- P. 90—Railway Labor Act troubles airlines.
- P. 94—Soft coal curb poses boycott issue.

that "paves the way for a new era of labor stability in this industry". They particularly liked the way Meany called upon maritime unions to help eliminate "whipsawing" by management or labor, bargaining or strike tactics that play one employer, say, against others bargaining simultaneously with the same union.

What Meany ruled is not so important, outside the maritime industry, as the fact of the successful arbitration. In Great Britain, the services of labor leaders have been used successfully for years in arbitration proceedings. Government spokesmen there say that awards invariably are written on the merits of arguments.

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Typographers, Lithographers End Long Feud, Agree to Cooperate

Two graphic arts unions abandoned their 45-year-old feud this week and signed a "mutual cooperation" pact. The Typographers (AFL-CIO) and the Lithographers, which recently left the federation in a jurisdictional huff, established a \$100,000 joint fund and coordinating committee.

No plans were made for a merger but the two unions declared: **"It is anticipated that the two organizations will carry on closely correlated activities in organizing . . . and in collective bargaining and economic activities."**

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Labor Protests TVA Contract Award

Unions this week protested to Pres. Eisenhower the awarding of a contract by the Tennessee Valley Authority to a Swiss company that underbid Allis-Chalmers and other U.S. manufacturers. **Labor urged the President to oust TVA directors for their "unprincipled" action at a time of high unemployment in this country.**

Earlier, A-C, Milwaukee and Wisconsin officials, and suppliers opposed acceptance of the Swiss low bid of \$2.5-million for three generators to be used at Wilson Dam. A-C was lowest U.S. bidder, with \$4.29-million.

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Strike Totals Up in October

A sharp increase in strikes—300 new ones in October lifted the total for the month to 525—idled 525,000 workers, the largest number for an October since 1952. The total in more peaceful 1957 was 159,000 strikers.

The number of new strikes in October was a hundred less than in September, but **the Labor Dept. cautioned that "all other measures of strikes activity increased sharply."** Auto and farm equipment industries were hit hardest by stoppages.

New Labor Law for Airlines?

● Rash of strikes and disputes raises question of whether industry has outgrown the Railway Labor Act.

● The law worked well enough for railroads which bargain en masse. But airlines dicker separately.

● All today's talk of new legislation may simmer down if the epidemic of troubles stops. Unions will fight compulsory arbitration.

Thirty-two years ago, Congress made its first effort to deal with labor-management relations on a national scale. That was when it adopted the Railway Labor Act of 1926, to handle labor disputes in the railway industry. As air transportation grew in importance, airlines disputes came under the statute in 1936.

Now a plague of strikes and strike threats in air transport has raised important questions of whether the Railway Labor Act—designed for railroads and the brotherhoods—is ineffective in preventing disputes from getting out of hand on the airlines.

With Trans World Airlines flying again and Eastern Air Lines and two unions seeking a quick end of an EAL tie-up, there's now less talk about the inefficiences of the Railway Labor Act. But, without a doubt serious thoughts will be given the demonstrated problem of airline stoppages.

• **What to Do?**—The one big question is what can be done to strengthen the federal regulations governing the relations between airlines and unions. Nobody has come out officially—yet—with concrete suggestions for changes. There's some talk on Capitol Hill about plans to hold hearings in 1959 on ways to tighten the law.

"We'll listen to any suggestions," one airline union leader said last week. At the same time, he warned that compulsory arbitration—the only apparent way the law can be strengthened—won't be accepted as the solution to present problems without a last-ditch fight by his union, or others.

Under the Railway Labor Act, railroad or airlines labor disputes which threaten a work stoppage go through successive stages of (1) mediation, (2) proffered arbitration of unresolved issues, and (3) where there is a chance of "substantial" interference with "essential transportation," emergency board fact-finding and recommendations. No strike or lockout can occur for 30 days after the emergency board reports.

Neither party is compelled, now, to accept the fact-finders' solutions. The law relies on the pressure of public opinion to force acceptance by carriers and unions. Sometimes it succeeds. Sometimes it doesn't.

• **Breakdown**—In the present difficulties between the air carriers and their unions, the machinery hasn't worked. The parties failed in direct negotiations. Mediation didn't break their deadlock. The parties failed to agree on arbitration. Finally, the emergency boards failed to provide a basis on which disputes could be settled—and strikes spread.

Take Eastern Air Lines' experiences, as an example:

EAL negotiators met with a committee from the Flight Engineers' International Assn. on July 10, 1957, to negotiate a contract to replace one that ran out Apr. 1, 1957.

About a month later, EAL negotiators also began bargaining with the International Assn. of Machinists, representing ground personnel. The talks that started Aug. 19, 1957, were aimed toward a new agreement before the existing pact terminated Oct. 1, 1957.

• **No Progress**—In neither instance was any progress made by the parties on major issues by direct bargaining. When the parties reported their impasse to the National Mediation Board (which operates under the Railway Labor Act), the NMB proposed binding arbitration. EAL agreed to it, but the Flight Engineers rejected the proposal. The NMB was notified of a stalemate in the case involving the Flight Engineers on Oct. 23, 1957, and in that of the Machinists about the same time.

A federal mediator held meetings with the company and the unions in October and November, seeking a basis for settlements. The mediation efforts were discontinued, as hopeless, in the FEIA dispute on Dec. 13, 1957, and in that of IAM on Jan. 1, 1958. Under provisions of the Railway Labor Act, the two unions were then free to strike on Jan. 16 and Mar. 2, respectively—provided a stoppage would have no harmful effect on "essential transportation." The NMB decided an EAL strike would have, and the disputes went to an emergency board.

The first meeting of the three-man board in the Flight Engineers case was held Feb. 10, 1958. Normally, a board completes its work and makes its report in 30 days. However, the EAL-FEIA dispute involved a complex and critical issue—a jurisdictional demand by the Flight Engineers for a jet-age job also claimed by the more powerful Air Line Pilots Assn. The emergency board moved slowly, reported back to the President on July 21.

• **Engineers Balk**—Eastern agreed to accept the board's recommendations. The Flight Engineers balked at them. It was free to strike after a "cooling off" period, 30 days later, but efforts to reach a settlement continued until the FEIA struck on Nov. 24.

In the Mechanics case, which involved five other airlines along with EAL, a Presidential board completed its study and issued its nonbinding recommendations on Sept. 15. EAL accepted the terms, but the IAM refused to settle on the basis of the recommendations. The union struck Capital Air Lines first, then later Trans World Airlines and Eastern on Nov. 24.

The airline's tie-ups occurred 16 months after bargaining began with the Flight Engineers, 15 months after first negotiations with the Machinists.

• **EAL Critical**—Eastern complained that this sequence of events "points up the inadequacy of provisions of the Railway Labor Act" in handling airline disputes.

"Certainly," said EAL, "insofar as the airlines are concerned, this illustrates particularly what happens when one party is not disposed to accept an agreement, and it points to the destructive use made of the time and delay opportunities provided by the . . . Act's 'voluntary' procedures, which impose severe economic penalties on the company forced to function under continued or repetitive strike threats."

EAL and the other airlines which have made similar critical references to the Railway Labor Act aren't alone in questioning its effectiveness. Many who have studied a steady rise in airline labor troubles in recent years say the air transportation industry has outgrown the federal labor law which covers it. Today, they contend, government regulation of airline labor relations is badly in need of overhauling.

• **No Pressure**—The crux of their arguments is that the way bargaining goes on now under the Railway Labor Act, the parties have no real incentive to settle quickly and directly.

Negotiations go on with an aware-


TAXI

ness that legal procedures exist for resolving differences. Consequently labor or management may elect to stall—to bargain as far toward its goals as it can, then sit back and hope that in the legal steps coming later it may win a bit more.

Jacob Kaufman, associate professor of economics at the Pennsylvania State University and a keen analyst of the Railway Labor Act, wrote last week that "the very existence of the procedure (available when bargaining deadlocks) prevents genuine collective bargaining."

The emergency board report in the American Airlines case, involving a dispute with the Air Line Pilots Assn., took note of this. It commented, "There has been no real collective bargaining between the parties on the merits of the issues now confronting them." The board said that the parties even failed to agree on what should be negotiated. Moreover, in the present pattern of airline bargaining, company by company, public involvement is never so great as when the railroads bargain en masse. A breakdown of bargaining doesn't ground all planes, as it stops all trains. The disputes during the last two months illustrate that.

• **Piecemeal**—First, Capital Air Lines was grounded for 37 days. Then, Trans World and EAL were strikebound—while CAL resumed flying. This midweek, only Eastern of the major lines was idle, but the ALPA still was talking tough to American.

If a union refuses to accept emergency board recommendations, public opinion isn't likely to build up to bring pressure for it to do so as long as air transport isn't shut down completely. There's inconvenience but not enough disruption.

For these and other reasons, Prof. Kaufman commented that the current disputes, and those in the past, "seem to indicate that the procedures of the Railway Labor Act have never been particularly effective in the resolution of disputes on the nation's airlines."

• **What Can Be Done?**—Official proposals haven't been heard, yet. They may not come. Under the Taft-Hartley Act, which covers industrial disputes, whenever a 60-day national emergency strike bar has failed to prevent a particular walkout, there has always been busy talk of a T-H amendment to toughen the bill. In the past, the talk has always died down once the strike ended.

The same thing might happen now; the criticism of the Railway Labor Act as a law to control labor disputes involving airlines may die down with this round of labor troubles. One observer in Washington said last week that the walkouts did not spread out enough or last long enough to create any real pressure for legislation from a Democratic Congress friendly to labor.

But, a University of Illinois labor economist, Prof. E. E. McNatt, wound up 10 years of research into labor relations in the air transport industry with a summary report, completed just before the current strikes, that noted a sharp increase in the number of airline labor disputes during the past decade in comparison with the 10 years before—the war years. McNatt warned that tangled labor relations in the industry must inevitably lead to further troubles unless "more mature collective bargaining relationships" are achieved outside the framework of the Railway Labor Act, and unless the parties rely more on voluntary arbitration, industrywide bargaining, and long-term contracts. Particularly, McNatt suggested, the federal law needs changing.

• **Suggestions**—Possibly in 1959, certainly as airline labor problems grow bigger, McNatt's suggestions will be studied on Capitol Hill. Among other things, he proposes:

• The Railway Labor Act's "ambiguity and uncertainty" in defining employees and subordinate officials should be clarified. He suggested that Taft-Hartley language would be a good model. Such a clarification would eliminate many jurisdictional questions that exist now, McNatt said.

• The law should be amended to give employees more choice in selecting "the type of union they want to represent them." In its present form, the professor reported after his study, the law drafted primarily for railroad workers is "too arbitrary, narrow, and rigid."

For one thing, McNatt said, except for the "strategically located craft of the pilots," airline workers might be better off with horizontal (industrial type) unionization than with the vertical (craft) form set for them before the airline industry began growing so rapidly.

Even the airlines might benefit by this change to bargaining with two or three unions instead of 13 or more, as now, he said.

• The law should be amended to speed the settling of disputes. The present machinery "has unduly prolonged the collective bargaining process on the airlines," McNatt's report commented. Too often, the recommendations of fact-finders are turned down by one side or the other, sometimes by both, and only become a basis for further negotiations—by the unions for more, the airlines perhaps for less.

• **Railroads, Too**—Many in the railroad industry have complained similarly about the Railway Labor Act in recent years. It's a cinch that if any proposals for changes in the act affecting airline labor come up next year, the land carriers and their brotherhood will get into the campaign. END

Is It a Boycott?

Industry and government are studying pledges won by John L. Lewis that limit use of nonunion coal.

The possible inflationary aspects of the new United Mine Workers contract are creating new worries in government and industry. Higher coal prices are in sight, and labor's bargaining goals for 1959 are now being adjusted upward as a result of UMW's $2-a-day raise. However, John L. Lewis' successful maneuvering for a boycott of nonunion coal is attracting at least as much interest and concern.

• **Boycott**—At a time when union boycott tactics are very much in the public mind, Lewis provided an object lesson in how they may be used. What he won, after bitter bargaining that delayed a settlement, was a contract pledge by all organized commercial coal companies that they will in the future have nothing at all to do with "production, handling, or sale" of coal not mined by UMW.

Union miners once produced well over 90% of all coal tonnage. In recent years, production under union contracts has declined, particularly as a result of strip mining operations. Today, the union estimates that 20% of the nation's coal is mined under nonunion conditions.

In one way or another, much of this coal is handled by UMW-contract employers. They often buy coal to supplement their production when orders pile up, lease nonunion mines at times for the same reason, or sell nonunion coal along with their own, as an agent.

The commercial coal operators, headed by Edward G. Fox, president of the Bituminous Coal Operators Assn., angrily acceded to the union demand for the pledge—but expressed a fear that they may be violating antitrust laws by restraining trade in nonunion coal. They signed only after weeks of what Fox describes as union "pressure." The so-called "captive" mines, operated by steel companies to produce coal for their own use, successfully resisted the demand.

Far from ending the problem, the formal contract signing raised these important issues for the future:

• The UMW and the operators must develop some method of policing coal operators, to keep nonunion coal from flowing along with that mined by UMW-contract companies. This is challenging, at the least, since coal operations are often pooled for gathering, cleaning, hauling, and sale of coal mined in particular areas—regardless of whether it has been mined under UMW contracts.

• It's anticipated that a nonunion coal company that is affected by the UMW agreement will go to court to protest against any refusal to handle its coal in normal channels. One key coal operator says he'll be "extremely surprised" if litigation isn't started this year.

• Whatever the legalities of this arrangement, boycott opponents will cite the new coal contract clause in Congress as another reason for legislation aimed at boycotts. Already, there is heavy pressure to restrict union boycotts; this agreement is sure to enhance it.

Lewis is gambling that the agreement will stand up. He wants it to create added security for the jobs of his mine workers.

Lewis gave in on one point with the commercial operators. He agreed that they would not have to break off current agreements with non-UMW operators—the contracts may run their course but they cannot be renewed.

Nobody connected with the new coal contracts wants to put a label on the type of agreement that was negotiated. But, they do not reject the term boycott.

This is the first time Lewis has gone after this type of contract agreement. However, he invented another type of boycott some years ago when he restricted his union members to a three-day week during tense negotiations with the industry.

Former Commerce Secy. Sinclair Weeks identified the union-enforced three-day week as a union tactic that should be outlawed under federal antitrust laws.

Just where the new "pledge" agreement comes under federal law—if anywhere—is still the subject of debate. Some observers believe it may come under the Taft-Hartley Act, perhaps under the "hot cargo" clause that covers situations in which a unionized employer agrees not to handle the goods of another employer with whom the union is in dispute.

This is a legal practice, under the latest Supreme Court ruling, providing the union does not force the employer to abide by the contract he signed. And, in this case, the coal operators openly state they were forced by the union into making the arrangement.

They did, however, agree to try and make it work. The settlement calls for three-man teams from each side to police the nonunion coal ban, and for periodic written pledges from the operators that they are complying.

While some support the theory that a Taft-Hartley boycott may be involved, others believe the coal pledge may violate the Sherman Antitrust Act. The

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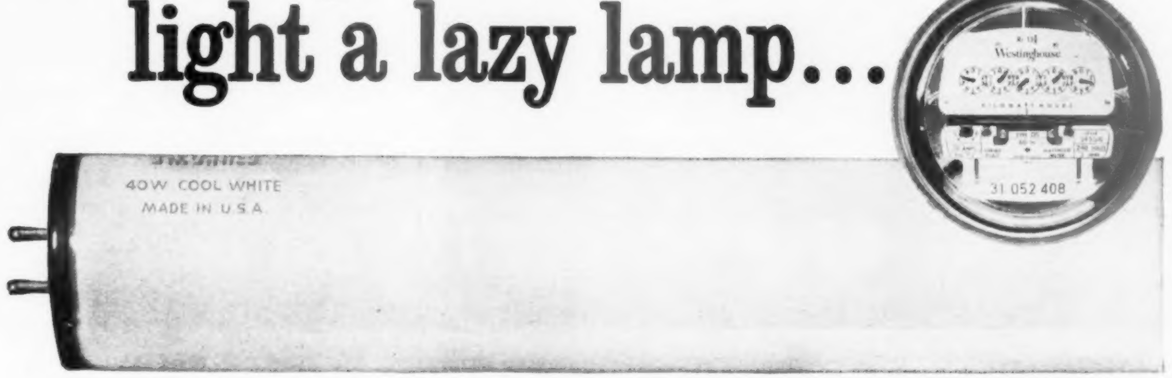

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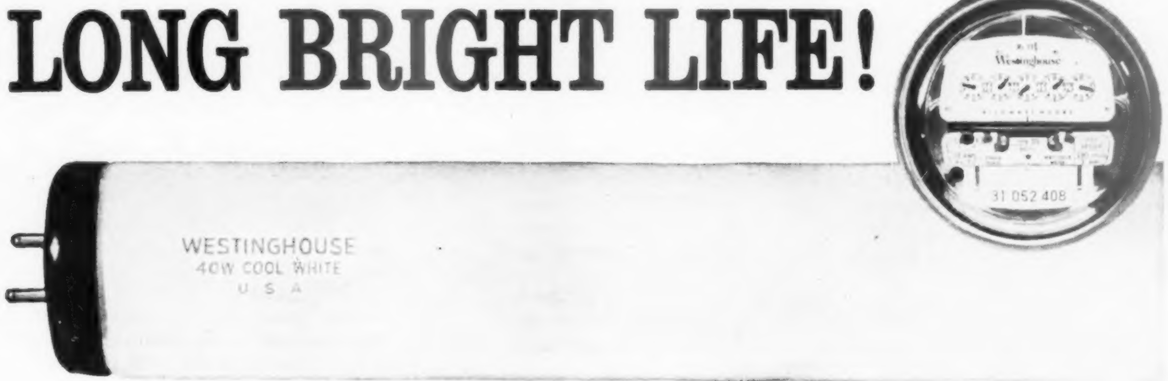

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Justice Dept. has prosecuted unions several times on the grounds of restraint of trade.

Most of these cases have involved employer-union deals to fix prices of products, or to keep other producers out of a specific market. The Justice Dept. interpretation of an antitrust violation, as it applies to unions, is that "a union cannot combine and conspire with an employer where the effect is to impose an unreasonable restraint on interstate commerce."

The United Mine Workers has resisted the production of coal at nonunion wage scales another way. Acting under the Walsh-Healey Act, the union persuaded Labor Secy. James P. Mitchell to raise rates paid to coal miners to the union scale on government contracts over $10,000. The rate is now at the miners' current $22.25 a day, but the UMW will probably move soon to lift it to the new level.

Labor Gives Its Ideas On How to Stem Inflation

With the big negotiating year coming up—especially in the pattern-setting steel industry—union leaders are afraid that "anti-inflation" sentiment will hold down wage gains.

Because of this, union economists have attacked proposals for incorporating price stabilization measures in the Employment Act of 1946 in papers submitted for consideration this week by the Congressional Joint Economic Committee.

According to Sol Barkin, research director for the Textile Workers Union of America, such proposals "tend to negate the broader objectives of the Employment Act, 'maximum employment and production.' "

In place of over-all anti-inflationary measures, AFL-CIO economists propose:

- Immediate determination of whether many large business corporations can and should be broken up, and of the procedures for such an undertaking.
- Federal incorporation of large business enterprises.
- National review via hearings of "the pricing policies of those great corporations that dominate important industries."
- A national productivity center for the service industries—where productivity is said to lag—to increase the effectiveness of service trades.
- Selective monetary and fiscal controls to be used against particular sources of inflationary pressures, such as consumer credit, bank portfolios, credit and investment policies of nonbanking financial institutions. END

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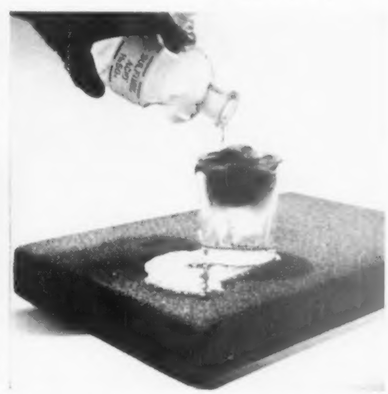

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INTERNATIONAL OUTLOOK

BUSINESS WEEK
DEC. 13, 1958

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The Administration is split over next year's foreign aid budget.

The Budget Bureau insists that all government spending, including foreign aid, should be held down. Pres. Eisenhower is backing this position, although he is against any actual cuts in foreign aid.

The State Dept., by contrast, is demanding more aid, with the emphasis on economic rather than military assistance. State argues that otherwise we won't be able to cope with the Soviet economic offensive.

Key struggle within the Administration is over the amount of new money needed for the Development Loan Fund. The DLF has become the main channel for long-term economic assistance to underdeveloped countries. Deputy Under Secy. of State Dillon wants DLF to have a minimum of $1-billion next year. (Congress voted $400-million last year.)

An increase in DLF funds would come on top of several new foreign outlays that Congress must approve. First, there's the plan for a 50% increase in the resources of the International Monetary Fund and a 100% increase in contingent liabilities to the World Bank. While no new appropriations will be needed for the World Bank, the IMF boost will cost the U. S. about $340-million in gold.

Then, State plans to ask Congress to approve the proposed Inter-American Development Bank. It's still a question whether the Latin American countries are ready to make genuine contributions to such an institution. But if they do, **the U. S. contribution may run as high as $500-million.** However, this money could come out of funds already available to the Export-Import Bank.

Looking further ahead, probably to 1960, there's the proposed International Development Assn. (IDA). This would be an affiliate of the World Bank, authorized to make development loans repayable in soft currencies.

World Bank Pres. Black and U. S. Treasury Secy. Anderson are putting their weight behind the IDA scheme. Their biggest job is to convince our European allies, especially Britain and West Germany, to ante up a share of IDA's initial capital. Present thinking calls for an initial capitalization of roughly $1-billion. The U. S. share would be about $340-million.

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Venezuela is shifting rapidly from dictatorship to democracy, though not without public unrest.

In the first free election in 11 years, **voters this week picked Romulo Betancourt, leader of the leftist Accion Democratica, as president.** But street riots—and fears of possible military intervention—marred the post-election scene in Caracas.

Betancourt may make life somewhat tougher for U. S. and foreign oil companies. They have invested over $2-billion in Venezuela. Betancourt probably will halt further oil concessions, hike taxes on oil companies, and establish a government-run oil company.

Still, he's likely to make these changes cautiously, through negotiations. The oil companies, expecting reforms since dictator Perez Jimenez's overthrow last January, seem ready to give ground.

INTERNATIONAL OUTLOOK (Continued)

Betancourt is no longer the firebrand leftist that he was a decade ago. Since the downfall of his government in 1948, he has mellowed during exile in the U. S., Puerto Rico, and Costa Rica.

Communists may make trouble for Betancourt. They supported runner-up Admiral Larrazabal, and captured nearly 8% of congressional seats. Army officers, too, may try to undermine the new government. They have never warmed to Betancourt.

On the economic front, Betancourt will face budgetary deficits, shrinking dollar reserves, and sizable unemployment (mostly farmers who have migrated to the cities). But he promises a program of belt-tightening. He will get help from a $225-million credit from U. S. banks. One bright sign is the pickup in oil exports, which will boost Venezuela's oil income.

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Finland is desperately trying to weather an internal political crisis produced by Soviet economic pressure. By applying a trade squeeze against Finland, the Soviets already have toppled one anti-Communist government. Now it looks as though they mean to push the Finnish Communists into a new government, then drag the country slowly into the Soviet bloc.

Moscow has almost a stranglehold on the Finnish economy. That's because the Soviet bloc is the main market for a large part of Finland's industry—the part built after World War II to pay reparations to the Russians. Moscow now is squeezing the Finns by stalling on important negotiations over trade and fishing rights.

It's possible the Finns can form a new government that excludes the Communists and still mollifies the Russians. But it would have to be built around the Agrarians and the leftwing Socialists. And such a government would head right back to the inflationary policies that put Finland into a financial jam early in 1957 (BW—Jan.15'57,p12).

To ease the pressure, Washington may well decide to offer Finland special financial assistance. Some U. S. officials think it is just as important to keep the Finns out of the Soviet bloc as it is to hold Berlin. If Finland became a semi-satellite, these officials argue, Moscow might be in a position to neutralize all of Scandinavia and to control the Baltic Sea.

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The clash between the European Common Market and the Free Trade Area isn't over yet. Next week, at a Paris meeting of the 17-nation Organization for European Economic Cooperation, the British will start fighting back. They will refuse to accept the compromise proposals just offered to the FTA group by the six members of the Common Market (BW—Dec.6'58, p103).

London will concentrate its fire on the proposal that, on Jan. 1, France should enlarge certain import quotas for its Common Market partners—but not for the rest of OEEC. The British case is this: France still is defaulting on an earlier OEEC commitment to liberalize its trade with Western Europe generally. If Paris frees imports to its Common Market partners before honoring this broader obligation, then France will be breaching the over-all OEEC agreement. This will give London the right to impose new quotas on French exports to Britain.

In the Markets

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Pipelines Lead Stock Prices to a Moderately Higher Level

Spurred by sharp rises in pipeline stocks (page 29), the entire stock market moved to higher ground this week after a period of nervous milling. At midweek, the over-all averages were still below the record highs established after last month's election, but only slightly.

Still, any new spurt probably depends on more bullish economic news. Most stocks already discount a big improvement in earnings, and they can't be expected to continue forging ahead unless business turns much brighter.

Investors are showing more discrimination. The natural gas stocks got most of this week's play. Other groups were spotty, with buying in the stocks that reported better earnings.

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Bear Sets February Deadline

A pessimistic and precise prediction about stock prices was made this week by Anthony Gaubis, head of the investment counseling firm of Anthony Gaubis & Co. (BW—Apr.12'58,p137). Gaubis, who has been bearish on the market all year and remains undaunted, warned investors to look for a sharp break by February—at the latest.

Gaubis thinks that stock prices are now selling at "an abnormally high level in relation to earnings and dividends." He predicts that the Dow-Jones industrials average will decline to around 508 in a few months, and says a drop to around 425 in the second quarter of 1959 would not be surprising.

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Five-Stock Parlay Wins Prize

Who made the most money in stocks—at least on paper? Top winner in an Assn. of Customers Brokers' contest to parlay a stake of $25,000 in 1958 was David Norr, 35-year-old analyst, with Burnham & Co. Norr's five-stock package was Lorillard, Royal Dutch, Consolidated Cigar, Empire District Electric, and Rexall; it rose 92% from February to late November, while the popular market averages climbed 23%. Norr, who admits he bought only Lorillard, got $60 in prize-money, and prospects of a lot of new brokerage business.

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Zenith Radio Shares Are Up Again As Speculative Interest Increases

Zenith Radio stock, which has been moving steadily on the prospect of higher earnings, jumped to $184.50 per share this week. That's more than three times its year's low of $60.38, which it registered after a 2-for-1 stock split in March, 1958. Nine-month earnings were $6.64 per share compared to $4.96 for the like period last year, and brokers report earnings could hit $10 for this year.

Zenith is the latest stock to attract speculative interest, partly because it declared $6 in dividends this year (including a $2 special payable in January), and partly on rumors of another stock split. **Because there's only a small floating supply of the stock available—there are just 984,000 shares outstanding—any big buying means sharp increases in its price.**

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Bond Market Tightens Still Further, Expecting Long-Term Treasury Issue

Bond prices drifted lower in quiet trading this week, as the government market continued to discount the probable effect of the anticipated long-term Treasury offer in early 1959 (BW—Dec.6'58,p116). **Moreover, there were signs that the nation's money managers may be moving away from neutrality to a more restrictive credit policy.**

For the first time since last January, Federal Reserve member banks this week owed the Fed more than their excess reserves. The Fed claimed this is due to seasonal factors and not to a change in policy. But Robert Van Cleave of C. F. Childs & Co. points out that the five-week moving average of free reserves—a very sensitive indicator of bond market conditions—now shows a drop after two months of stability.

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Irving Trust Offers Loan Service In Federal Funds to Other Banks

The federal funds market is beginning to attract new brokers. This week, New York's Irving Trust Co., one of the big money market banks, joined Mabon & Co. stock exchange house (BW—Nov.8'58,p125) in announcing it will arrange interbank loans of federal funds—which are member bank deposits at the Federal Reserve. Another securities firm, Garvin, Bantel & Co., is already in the field.

Irving Trust's action emphasizes the growing importance of the federal funds market, which allows member banks to adjust their reserve positions without having to use the Federal Reserve System as a "lender of last resort." **Banks with extra reserves can put them to work; banks that are short can borrow—usually at less than the Fed's discount rate—without being subject to the same scrutiny the Fed exercises over banks that borrow direct from the Fed's discount window.**

Although Irving Trust is the first bank to offer formal brokerage service in federal funds, it's estimated that over half the present volume in funds trading, which offer amounts to more than $500-million a day, is accounted for by money market banks who buy and sell the funds as a service for their correspondent banks. **Since the Irving's service won't be limited to correspondents, it's expected to boost the number of banks—estimated at about 250—who use the funds market.**

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THE COMPLETE STORY *in this illustrated brochure, yours on request. Write Steelcase Inc., Dept. B or ask your Steelcase dealer. See the Yellow Pages — under "Office Furniture" classification.*

STEELCASE INC

PRODUCTION

China's Backyard Iron Industry

The Communists count on archaic small-batch methods for help in doubling iron-steel output in one year.

NEW GROUP of iron-smelting ovens in Chungwei follows the age-old anthill design and uses part-time labor of the villagers. Bricks to line furnaces are in foreground.

Once upon a time in China, there lived a simple man who said he could move mountains. When people laughed at him he said: "My children, their children, and their children's children for generations will work until the job is done." A beneficent spirit whose heart was moved by such dedication sent angels to earth who moved the mountain for the simple man of faith.

Mao-Tse-tung, high priest of Red China, has retold that parable to the Chinese millions in modern terms. Mao claims that insurmountable obstacles will vanish under the massive effort of the Chinese people, if only they look to their guiding spirit—the Communist Party.

Nothing less than this kind of fanaticism explains the present mood of mainland China. The Reds are setting industrial targets that to knowledgeable outsiders seem not only impossible but pure fantasy. Instead of stretching out the unrealistic goals of five-year plans—a practice familiar in Russia—Mao is compressing them. China's 15-year mission to "Overtake Britain" is now a five-year goal. The latest five-year goals have been shortened to three for "China's Great Leap Forward."

• **Iron-Steel Goal**—Of all the new plans, none is more startling in magnitude and method than China's desperation drive to produce more iron and steel. From last year's production of a little over 4-million tons—a figure most Western observers greet with some skepticism—this year's goal is raised to 10.7-million tons.

Whether or not these numbers mean anything is a real question, but regardless of their accuracy, the way Mao is going about getting this increase is impressive—and a bit frightening. Hundreds of thousands of homemade, backyard ovens, tended by peasants, are meant to turn the trick (picture).

• **Sheer Manpower**—For workers, Mao has tapped the countless hordes of peasant farmers, now organized in labor camp communes. For technology, he has turned back the history books to the 14th or 15th Century. For raw materials of construction, he points to the clayey soil and thousands of empty fuel drums. From these, plus the overtime labor of perhaps as many as 100-million Chinese, he plans to wring the extra 6-million tons of metal.

In some ways, the plan makes cruel sense. And for magnitude, China's effort to catapult its neolithic peasant farmers into the Iron Age is unparalleled in human history. No doubt, the Communist leaders hope to forge a two-edged sword from the iron program:

• It could provide more iron for the open hearths of China's modern steelmaking centers. Locally, it should yield a supply of the simple tools, such as hoes and plows, that the Chinese peasants lack.

• It has enormous educational and propaganda value. Making and shaping iron will teach the peasants the rudiments of technology.

• **Great Change**—This program could mean a rapid change for a mass of humanity that has never had access to metal tools. The way it is being done stands in sharp contrast to India's way. The two countries share the same problem of overpopulation, poverty, and illiteracy, have the same difficulty in training skilled workers and technicians. But India is basing its industrialization on large Western-type integrated complexes of iron and steel works, while China gives more weight to peasant sweatshop labor.

Of course, Mao doesn't expect all his iron chickens to hatch in the farmyard. China has five modern steel centers operating, and a sixth under construction in Paotou in North China. Yet Mao claims his greatest gain will be from the same source that built the Pyramids—sheer manpower, mercilessly driven by his overseers.

I. The Anthill Ovens

Already, the Chinese Communist propaganda machine proclaims, there are 17,000 small blast furnaces scattered over the length and breadth of China, plus some 400,000 backyard "steelmaking ovens." If even half of these are operating at any given time, they will surely turn out a lot of something. But it won't be steel, regardless of what the Chinese claim.

What comes out of the beehive-shaped furnaces is iron. It's spongy, full of slag and impurities. It is usable for making simple wrought iron or cast iron implements, and it's comparable to scrap iron as a feedstock for open-hearth furnaces—that is, if it doesn't contain so much sulphur that it would make conversion to steel uneconomic.

• **Melting Pots**—The "plant" that's available to the untrained hordes of workers in the farm villages is made up of a wild mixture of designs. Some furnaces, which look for all the world like big anthills, are the same design used as far back as the 8th Century. They are in various sizes and various degrees of repair. "Some," declares Radio Peking proudly, "have been improvised."

As far as Western observers in Tokyo and Hong Kong can see, the buildup of

". . . they hope to batter the problem into submission with manpower . . ."

CHINA STEEL starts on p. 107

village manufacture of iron (and perhaps steel) is being pushed wholesale, with details to be worked out as the project goes along. There is hope, say the Red leaders, that the peasants will come up with better techniques if they are given a free hand at developing furnaces. They assert that to improve quality, they must first multiply quantity. With their seemingly bottomless reservoir of manpower, they hope to batter the problem into submission.

• **Double Talk**—Untangling the garbled reports from the Chinese provinces on the iron and steel program is difficult. The Chinese don't distinguish between iron and steel or between smelters, blast furnaces, cupolas, and open hearths. Yet enough reports have come in from awed Japanese, Yugoslav, and Western observers to leave no doubt that the furnaces are producing.

Radio Peking describes the furnaces as "designed by peasants and made of empty gasoline drums or iron caldrons lined with fire clay to withstand high temperatures. Raw materials are locally-mined crushed magnetite with high iron content, limestone, and coke. The furnaces yield a heat of steel in about three hours. Peasants with no knowledge of steel smelting can master the technique in the course of one heat."

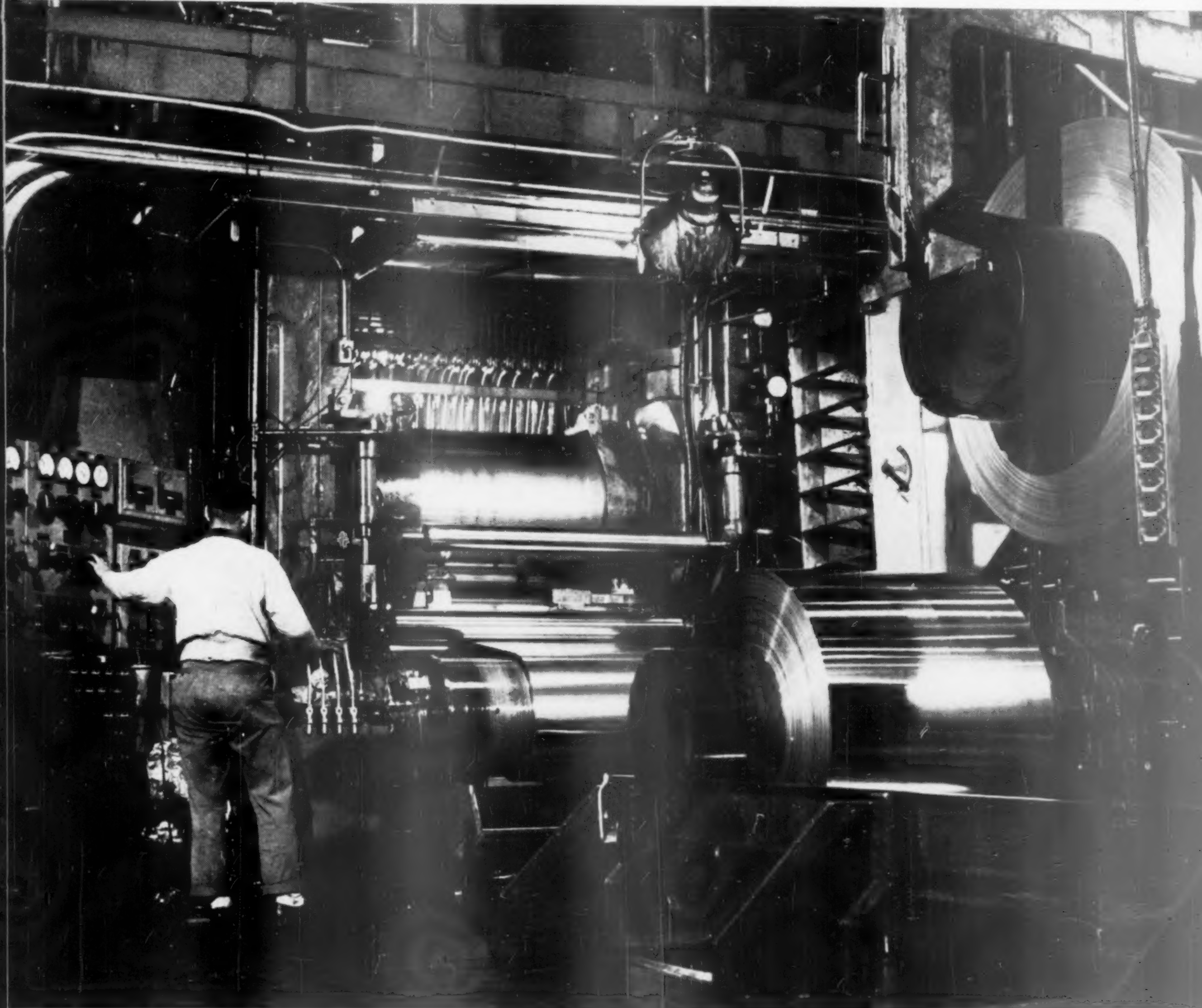
• **Furnace Design**—Even without supplementary blowers, a furnace of this general design could yield sponge iron. It's not necessary to melt the iron to reduce the ore from the oxide to its metallic state. But to get a purer iron, the sponge has to be remelted, or a different type of furnace must be used.

Typical furnaces in Hunan Province look like potbellied stoves nearly 10 ft. high, just over 4 ft. in diameter at hip or center and tapering toward the bottom. Peking Radio says peasants in Hupeh built a furnace with less than half a cubic meter capacity that turns out 16 tons of pig iron in 24 hours. If this story is true, this furnace is capable of reaching temperatures high enough to melt iron, which means that extensive blower systems must be used.

The ingenious amateurs in another part of Hupeh are credited with developing a stove to preheat the blast air, adding 80% to the efficiency of their furnace. Undoubtedly, this is a version of the brick checkers in reverberatory furnaces, which absorb heat from the exhaust gas and yield it to the blast air.

• **Direct Conversion**—Radio Peking makes other strong claims.

"In Hopei Province, after a period of



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experimentation, peasants learned to smelt steel from iron ore directly," bragged a recent broadcast.

Such a development would interest Pittsburgh, which is still using the dual cycle—blast furnaces for pig iron, open hearths for steel. But the propaganda station, if not fabricating the whole story, probably confused pig iron with steel, as is its wont.

However, if the peasants in Hopei have succeeded in getting their furnace temperatures up to the point of yielding a liquid product, they are at least up to 14th Century standards. The first blast furnace in Europe is dated in old records at 1340.

The best design among the backcountry furnaces, according to the Communists, is in Shansi Province, where locally-quarried white marble is used to line the furnace, eliminating the need for magnesia, a scarce item. But since "white marble" (whatever it may really be—marble in the West would probably calcine and fall apart) is not available everywhere, the Communists have developed a kind of plaster brick for furnace linings.

II. Plenty of Problems

In whipping the proletariat to greater efforts, the Communists incidentally admit widespread problems in their grassroots iron-steel project. Quality of the pig iron from the small-batch process not only varies from furnace to furnace and locality to locality, but seldom are two heats alike even if they come from the same furnace.

• **Upgrading the Pig**—The Chinese press tells of a meeting in Tientsin to demonstrate ways to use village iron to make steel. According to the reports, steelmen protested that the rural product often contains 2% or 3% sulphur. Refining in other small furnaces can reduce the sulphur content by 50% or even up to 80%, but even then, the experts said, the iron is of doubtful value as feedstock for the big steel mills.

The idea of converters to refine and upgrade the local pig iron has been spreading, but it also faces obstacles. An editorial in People's Daily notes that two such converters had been planned for Shansi Province but that neither is operating. Parts for one haven't arrived from Manchuria, and a motor is broken in the other. The editorial concludes that methods must be found to refine the village iron without manganese; such a process has been developed, the paper says, but it doesn't give details.

While the desire to eliminate manganese is understandable, since manganese can't be recovered from small operations as it can in large steel plants, it is highly unlikely that the Chinese

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". . . in some regions only 40% of the manpower was left in the fields . . ."

CHINA STEEL starts on p. 107

really have a practical way of eliminating it. Their primitive smelting techniques produce a high sulphur content iron, and the more sulphur they have, the more manganese they need to mix in to get rid of it.

One Communist Chinese article says steel mills can solve the problem of pig iron quality by producing their open hearth steel well above minimum requirements, then adding low-quality pig iron to the mixture. Japanese steelmakers shuddered when they read this article; such practices may well lower the general quality of Chinese steel, they say.

• **Labor Shortage**—Apparently, too, there are limits even to China's massive manpower when it takes so many men to keep each rural furnace going.

The communizing of all family and community life has freed women from housekeeping and child care, yet even this labor saving appears to have fallen short of the labor demands of farm and iron furnace.

An editorial in the People's Daily last month commented that in some regions only 40% of the farm manpower was left in the fields; the rest of the men and women were diverted to the iron furnaces. Ta Kung Pao, a government spokesman, agreed that the collection of grain for the state had suffered before some farmers were relieved of their work at the ovens and sent back to the field. He said also that the villagers should be given some rest from an excessively heavy work schedule.

• **Transportation Jam**—Not the least of China's problems appears to be transportation. While the backyard iron furnaces draw on local raw materials, their product must be transported, in hundreds of thousands of small lots, to the central converters and the five main steelmaking centers.

This is an added complication for a country whose transportation system is already overloaded. Last week, reports from Hong Kong said the Chinese railroad's burden of scrap and pig iron had so clogged the roads that export shipments to Southeast Asia were blocked. These shipments, earning much needed foreign exchange, are regarded as vital to the Chinese economy—as vital as steel production.

Moreover, a Japanese observer estimates from reports in the Communist press, only half the 400,000 village ovens are operating at any given time—the rest are out of service because of

breakdowns. One report, for example, tells how some furnaces made of clay brick dissolved in torrential rains in South China.

III. Can They Do It?

Americans who saw the Chinese Nationalists, during their war with Japan, conjure up airfields virtually overnight have a high respect for what the Chinese can accomplish without machinery. But they doubt that masses of muscles are an acceptable substitute in steelmaking. For serious progress in China's steel production, foreigners look at the conventional mills.

• **Postwar Restoration**—Before and during World War II, the steel industry in Japanese-occupied Manchuria could produce 4-million ingot tons a year for rolling in Japan. In 1945, however, the Russians marched through Manchuria and stripped the industry of everything that could be carted away. When the Communists took over in 1949, China had little steel capacity.

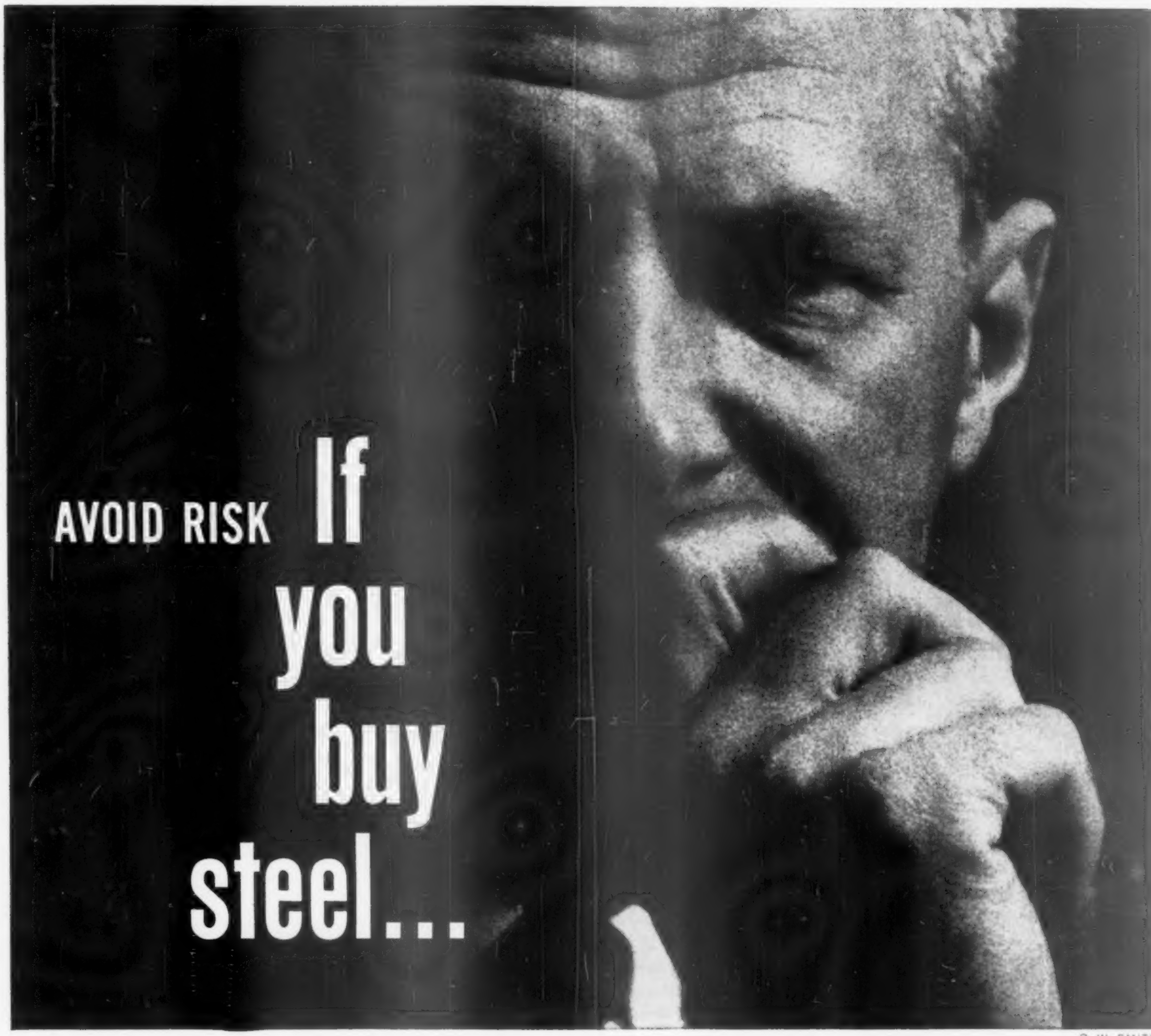
The Russians rebuilt the steel mills for Mao's government. It wasn't until 1952 that the vital complex of mills at Anshan, Manchuria, were operating again, but Japanese visitors report that the Russians enlarged as well as replaced these and other plants. Open hearth furnaces that had only 50 tons capacity under Japanese management, for example, were doubled in size. And some new equipment is considered better than that in Japan.

In 1952, Japanese experts estimate, Red China produced 1.35-million ingot tons of steel at five centers: Anshan in Manchuria, Wuhan in central China, Shanghai and Peking in eastern China, and Chungking in southwest China.

Since then, the Chinese have been inching their capacity upward through methods used by steelmakers universally to improve efficiency of existing mills, and through construction of additions at Wuhan and Shanghai. Russian technical experts have helped greatly with advice, the Chinese say.

• **Improvements**—Japanese steelmakers expect China's modernized plant to continue to produce spectacularly. The Chinese claim to have two of the world's largest open hearths at Anshan and to have learned how to charge these in a way that yields 66 more tons of steel per heat. The Japanese see no reason to doubt this claim.

But the task that faces Mao is enormous. On a visit to China last year, Japanese experts calculated that it would take 100,000 tons of steel to provide every Chinese family with one washbasin per year. That would use up between 1-million and 2-million tons of pig iron from the village furnaces. That's the kind of mountain Mao and his Communists must move. END



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Per ton delivered	______
Cost of capital:	
Inventory	______
Space	______
Equipment	______
Cost of operation:	
Space	______
Material handling	______
Cutting & burning	______
Scrap & wastage	______
Other costs:	
Obsolescence	______
Insurance	______
Taxes	______
Accounting	______
TOTAL	______

COST OF FREEDOM-FROM-RISK STEEL FROM YOUR STEEL SERVICE CENTER

Per ton, cut-to-size, and delivered	
TOTAL	______

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THE PRODUCTION PATTERN

Air Pollution on the Spot

SMOKE SIGNALS are rising all over the country, bearing this message: If you haven't been affected by local and regional action against air pollution, you will be soon.

Public pressure for clean air is rising, steamed up by research programs gathering impressive masses of data on the high cost of dirty air in terms of depressed property values, health hazards, and assorted inconvenience.

Local citizens, stirred by these facts, will no longer lie still for the argument that smoking mill chimneys mean fatter paychecks. Businessmen involved in smoke and fumes complaints are finding a dwindling public patience.

All this came out clearly last month in Washington, at the First National Conference on Air Pollution, called by Surgeon General Leroy E. Burney. More than 900 delegates showed up, from state and municipal governments, medical research establishments, industry, and such organizations as the National Assn. of Home Builders and the General Federation of Women's Clubs. Just about everyone agreed that regulations on smoke and air pollution will get steadily stiffer—at a faster clip than has been expected. Here are some of the goals:

- Research in epidemiology has found strong correlation between air pollutants and such diseases as lung cancer and chronic bronchitis. Samples of city air have been shown to contain upwards of half a dozen carcinogens—the chemicals that in concentrated form cause cancers to develop in animal experiments.
- Impressive records have been made by the cities that have cleaned up. Smoky St. Louis and Pittsburgh have made great strides. Los Angeles is at least holding its own against smog, by barring the burning of trash and by enforcing the strictest rules ever drawn against industrial air pollution. In all three cities, you can see that to get clean air, public and industry both will put up with a lot of expense and inconvenience.
- Techniques are improving for incineration, the disposal of trash and garbage, and for getting rid of fumes and odors by filtering, washing, and other methods. Many plants have adopted the new methods, though industry estimates of $300-million already spent are only a fraction of the eventual cost.

Excessive cost accounts for the laggard performance of most industry in cleaning up the discharge from its stacks. Some companies have found that recovering usable byproducts will pay part of the bill. Detroit Edison has sold its fly ash for lightweight concrete aggregate. The oil and chemical industries have found hundreds of ways to turn an honest penny from byproducts. But profits from the wastes are still the exception.

Meanwhile, observers are convinced that demands for stiffer regulations will increase with improvements in the art of detecting, identifying, and eliminating pollutants.

The publication of cancer statistics by medical researchers dismayed some industry and community delegates, even though they sympathized with efforts to clean up the air. They feared that the public might be panicked into forcing passage of unreasonable laws.

The chemical industry—which has born the brunt of pollution troubles, some of them undeserved—has found that the best tactic is the closest possible liaison between industry, the public, and government. Said one industry specialist: "If you're really trying, it makes no sense not to let people know. And if you aren't trying, you're just asking for trouble."

ANY INDUSTRY, of course, offers the easiest target for public indignation over air pollution. A tall smokestack gets all the harsh words, through actually its plant may be making only a tiny contribution to area pollution in comparison with trash burning and home furnaces.

But industry also is in a perfect position to lead the drive for cleaning up, and has a big public relations stake. As an American Cyanamid delegate put it, "We care a lot about the face our plant presents to the public. It wouldn't be very wise for us to smell like rotten eggs, would it?"

NEW PRODUCTS

Melter Eats Snow on the Spot

Romping in the snow is all very well for children and the romantically inclined, but for airport managers, bus and truck terminal operators, and hard-pressed parking lot supervisors, a top-grade snowstorm can be a real calamity. Now Esso Research & Engineering Co. is coming to their rescue with the snow melter pictured above. This unit, for parking lots and similar open-air aprons, can eat up snow just about as fast as it can be piled up—as much as 25 tons per hour.

With this device, getting rid of the snow is merely a matter of dumping it into a bathtub-like pit filled with water that is heated to a near-boiling temperature. This quickly turns the snow into water, which is drained off, except for enough hot water to keep the operation going. Specially designed high-heat oil burners, beside the pit, produce the hot gases needed to heat the water.

Winter-long tests on a Massachusetts parking lot showed that removal of an 8-in. snowfall can be cut from a 10-hr. to a 4-hr. job. Total oil cost for removing an 8-in. snowfall runs about 25¢ per car space—about one-third the cost of trucking it away, according to Esso.

Thermal Research & Engineering Corp., of Conshohocken, Pa., has been licensed by Esso to make and market the melter. The first experimental unit cost $7,000, but Esso thinks production units will cost considerably less.

NEW PRODUCTS BRIEFS

Plastic liners for collapsible rubber containers are making it possible to use the giant tubes for shipping beverages and other liquid food products. Visking Co., a Union Carbide subsidiary, develeped the polyethylene liner for U. S. Rubber Sealdtanks, the largest of which will hold 4,000 gal. Transportation of milk, liquid sugar and chocolate, and offshore drinking water are among the uses for which the big tanks are being adapted.

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A mechanical tape measure developed for the Pacific Tube Co., Los Angeles, requires less manpower for measuring pipes. As the stainless steel pipe moves down the inspection line it comes to a stop on which the measuring unit is mounted. Only one operator is needed to pull the tape down the length of the pipe while the unit measures and records the lengths at the rate of two pipes per second. The device was developed by Datex Corp., Monrovia, Calif.

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Long-lasting beakers and other laboratory ware of du Pont's Teflon plastic have been developed by Chemplast, Inc., East Newark, N. J. The new equipment is expected to last 10 times as long as that made of glass. The plastic beakers, stirring rods, watch glasses, and evaporating dishes are capable of withstanding 600F temperatures for hours at a time, can resist 90% of the acids, are non-wettable and easy to clean. Cost is about three times as much as regular laboratory glassware.

PERSONAL BUSINESS

A BUSINESS WEEK SERVICE

Have you been considering a donation to your alma mater?

If so, you might find it worth while to look into the question of "planned" college giving (BW—Mar.9'57,p177). Here the basic idea, of course, is that you're given a chance to support your school financially, and at the same time, to do it in a way that ties in with your own estate planning program.

Take, for example, the "tax-free income plan" (a new method and one of the most promising devised, according to college financing experts):

You donate a lump sum. The college, in turn, places the money in a fund invested in tax-exempt bonds. You get a lifetime income from the investment at whatever rate the fund earns; at your death, the principal goes to the college. (You can also arrange to have the income paid, thereafter, to your wife or children.)

Not only does the college benefit, but here you can enjoy a strong four-fold advantage:

- **A sizable tax deduction.** In the year of donation, you can deduct the "present value" of the principal that will remain after your death, figured on an actuarial basis according to Internal Revenue Service tables.
- **A nearly guaranteed return on your money.**
- **No capital gains tax to be paid upon the sale of any property (such as securities) that you donate—where the property has appreciated in value.**
- **No income tax on your annual return from the college fund, because the principal is invested in tax-exempts.** This is the new feature that puts this plan a step ahead of similar programs

A dollar example illustrates why the tax-free income plan should appeal to the college-minded alumnus whose personal tax bracket is high:

Assume the hypothetical alumnus, Jones, is single, age 50, and in the 75% tax bracket. He gives his college 100 shares of stock that he bought at $60, but which currently sell at $100. In return, he gets a lifetime income from his $10,000 donation at the rate of, say, 2.3% a year. (The return, of course, would often be higher, depending on the make-up of the trust.)

Jones pays no capital gains tax on the $4,000 appreciation in the value of the 100 shares. Moreover, he's entitled to a charitable deduction of $4,803—the "present value" of the $10,000 the college will get at his death. **Considering his tax bracket, Jones avoids giving $3,600 to the tax collector (because of his $4,803 deduction).**

This means that he is out-of-pocket just $6,400 ($10,000 less $3,600). His annual income is $230 (2.3% of $10,000)—thus the rate of return on his out-of-pocket gift is 3.6%, and this is completely tax-free. And note this: **To get a $230 annual return, after taxes, Jones would have to invest nearly $23,000 at 4%.**

Had Jones kept his 100 shares and received, say, a $5 yearly dividend, he'd have retained only $1.25 a share—or $125 a year after taxes. Had he sold the stock for $10,000 and bought tax-exempt bonds, he'd have paid a capital gains tax on $1,000 (25%) on the $4,000 appreciation—this would have left him only $9,000 to invest.

The tax-free income plan is, of course, just one of several similar programs now offered by many colleges and universities. Amherst, Barnard,

Bryn Mawr, Dartmouth, and Vassar in the East; Randolph Macon, Southern Methodist, and Vanderbilt in the South; Carnegie Tech, Iowa State, Pittsburgh, and Wittenberg in the Midwest; Pomona on the West Coast—these are a few of the colleges that recently have taken the lead in developing "planned" methods for college donation. **Many others are following the trend, especially in view of the current need for school expansion.**

If your alma mater hasn't as yet come up with such an idea, you may want to discuss it with campus officials and fellow alumni.

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Don't be surprised when you're at your jeweler's selecting gifts this month to find that the costs of both precious and semi-precious gems have risen considerably. This is what you'll discover:

• **Diamonds. Cost of fine quality stones has risen about 6% in a year** to the following ranges: 1 carat, $590 to $1,235; 2 carat, $1,500 to $3,410; and 3 carat, $2,725 to $6,820

• **Emeralds, sapphires, and rubies.** Prices are up as much as 30% to 40% over last year's. An emerald, depending on the stone's size, will run from $8,000 to $50,000 per carat.

• **Opals and amethysts. Opals have more than doubled in value in the last 12 years.** Fine quality white ones are tagged at between $50 and $75 a carat, and good quality amethysts, **up 20% in the past year**, cost about $15 to $20 a carat.

Natural pearl necklaces, when you can find them, have come down in price. Strands of small, fine graduated pearls can be bought for $1,000 today; a few years ago they would have cost thousands more. **The reason: growing popularity of cultured pearl necklaces. These generally sell in a broad range from $25 to $10,000. Note: Both the classic (graduated) and choker (uniform) styles are popular with women this year.**

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Have the openings this month of the luxurious resort hotels, Dorado Beach and La Concha, in Puerto Rico, aroused your curiosity? Dorado Beach (136 rooms in two-story beach houses with an 18-hole seaside golf course) is entirely booked for the holidays, but you might be able to secure accommodations for January after the 5th. **February, though, is tight.** Write Resort Representation Service, 30 Rockefeller Plaza, New York.

La Concha, however, with nearly 200 more rooms, has openings for the holiday season. Accommodations also are available for January and February (William P. Wolfe, 500 Fifth Ave., N. Y.).

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Pre-Christmas tax note: If you receive a gift that is subject to the federal gift tax (over $3,000 in cash or property), you no longer need bother with an information return telling the IRS about it. New rule applies to gifts received in 1958 and later. The donor, of course, pays the tax.

—•—

A small device designed to reduce cigarette tars by improving combustion goes on the market this week. Called Ventnar, it punctures tiny vents in a cigarette (Louis Marx & Co., 200 Fifth Ave., New York, $2.95).

"Remember what Hogan says... don't bend your elbow until the 19th hole."

Scotland's second finest invention is played around the world by the same kind of people who can afford to drink its first.

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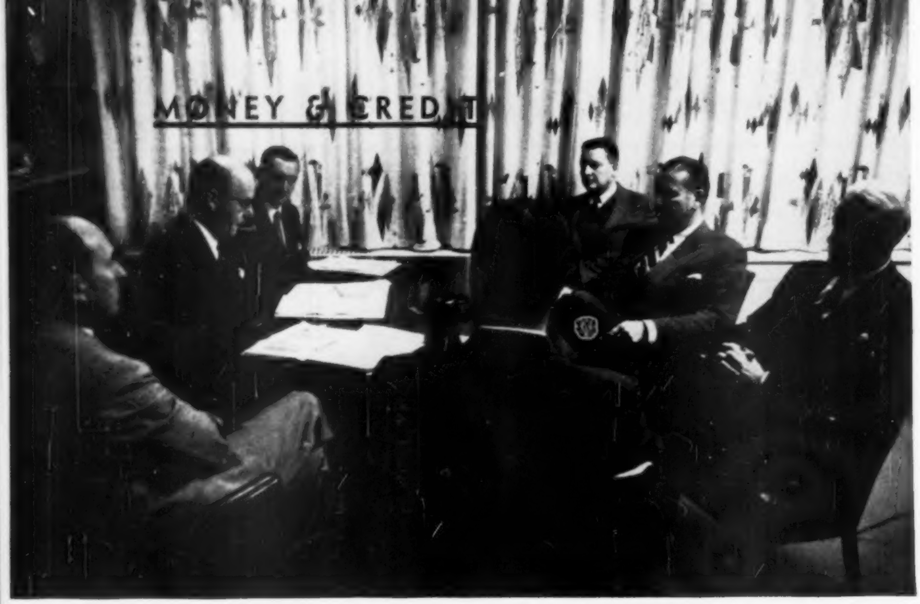


POLICY BOARD consisting of Merrill Lynch's division directors meets weekly to discuss problems. As a corporation instead of partnership, it will be able to retain earnings and thus ease capital problems.

Merrill

This week, the partners of Merrill Lynch, Pierce, Fenner & Smith, the nation's biggest brokerage house, are buttoning up the legal details of a change that will deprive Wall Street jokesmiths of one of their favorite topics. They are converting the firm into a corporation (BW–Oct4'58,p30). Just about a month from now, when the change will be officially announced, Merrill Lynch will add an Inc. to its tongue-twisting title.

This move will obsolete a large number of quips about Merrill Lynch as a partnership so big it has to hire a hall to hold a meeting (in fact, all 117 partners have never been assembled at once for a meeting). It may also start a trend that obsoletes the traditional Wall Street methods of doing business.

Although a few Wall Street outfits, most of them small, run as corpora-

INQUIRY DESK is nerve center of Merrill Lynch operation. Here staff receives and answers questions for 450,000 customers served through 126 branches.

WIRE ROOM handles more than 3-million transactions a year for all Merrill Lynch customers. Under Charles Merrill, the outfit startled Wall Street by wooing the small investor.

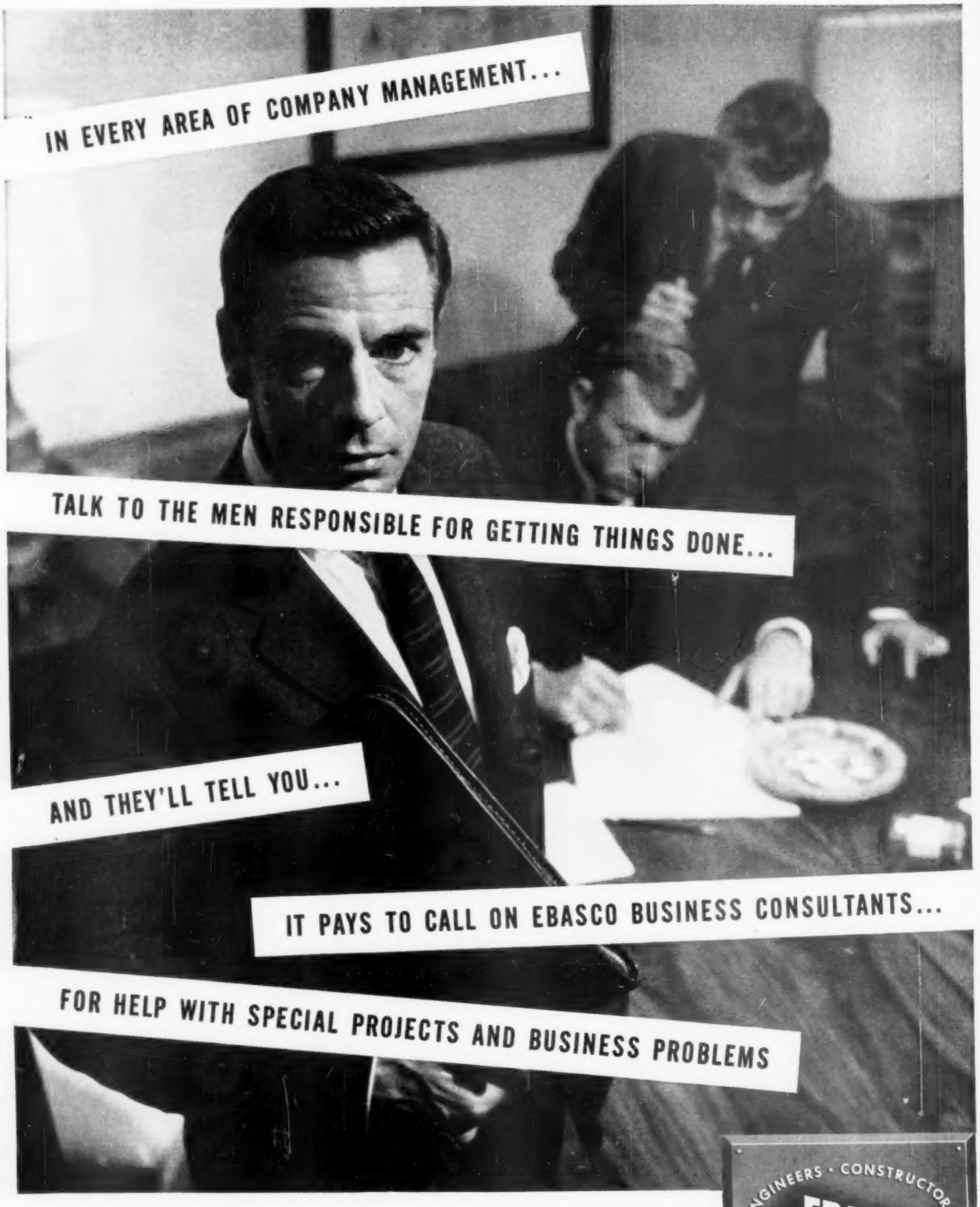
Lynch Adds an "Inc." to Its Name

tions, the vast majority are partnerships. Each partner assumes personal liability for any debts or law suits his firm incurs. This is the traditional way to do business in Wall Street—in itself a stronghold of tradition.

• **"We the People"**—But Merrill Lynch has always delighted in tradition breaking. Its gigantic partnership—71 working and 46 limited, who enjoy being known as "The Thundering Herd" or "We the People"—has been its last real tie to the conventional methods of operating a brokerage or underwriting house. In transforming itself into a corporation, it is living up to its own tradition as the trail blazer of the financial community.

Merrill Lynch's most radical innovation was in seeking out the small investor. As a result, it benefited the most from the rise in personal incomes

PORTFOLIOS of clients and prospects are analyzed free by research staff at an average rate of 700 weekly. Each gets individual attention.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IT PAYS TO CALL ON EBASCO BUSINESS CONSULTANTS...
FOR HELP WITH SPECIAL PROJECTS AND BUSINESS PROBLEMS

(Story starts on page 124)

and the growing public interest in stocks as an investment. The firm has been expanding at a rate that qualifies it as a growth company, and its concentration on small investors has made it into a big business.

According to the firm's top executives, directing partner Winthrop H. Smith and managing partner Michael M. McCarthy (cover), the corporate form of ownership will put Merrill Lynch in a much better position to continue its remarkable growth. Not that growth is the sole object. As Smith sees it: "We are not content with being big; we also want to be the best."

I. The GM of Wall Street

There is no doubt about Merrill Lynch's bigness. Its partners often describe it as the General Motors of the securities business. But while GM has a much greater share of auto sales than Merrill Lynch commands of stock transactions, there is no Ford or even a Chrysler among its 550 competitors. Moreover, it is a big wheel in every aspect of the securities industry.

Other Wall Street firms may come close to it in one area or another. And there are individuals in other houses who have bigger reputations than any one of Merrill Lynch's partners. But no other firm offers so much in the way of staff, facilities, and information to so many.

It is, of course, in a class by itself as a "wire" house. Its 100,000 miles of leased Teletype wires link its home office at 70 Pine St. with 126 branch offices in 96 cities across the country. Last year, on the New York Stock Exchange, it handled 12.6% of round lot volume—100-share transactions—and 20.3% of odd lot volume. It also does the lion's share of trading on all other U. S. exchanges. It ranks as the nation's largest dealer in over-the-counter securities. And it does more business than any other firm in commodity trading.

• **Late Entrant**—The only area in which Merrill Lynch cannot claim first place is underwriting, which it largely neglected until after World War II. But even in underwriting it is among the top 10 firms, more as a participant in syndicates than an originator—or manager—of new issues. Says one rival investment broker: "I always breathe easier when Merrill Lynch is on my side, because they can sell stock better than anybody else."

This ability to sell securities means that Merrill Lynch gets a lot of secondary distribution business—selling big blocks of listed securities, usually from institutional investors, without passing through the exchange. And it is a big buyer and seller of securities for mutual funds, despite the fact that its sales force tries to discourage its customers

BRANCH OFFICE in Cleveland occupies ground floor in business district to encourage walk-ins.

BOARD in Cleveland fascinates clients interested in latest stock quotations. One consults a Merrill Lynch account executive.

from buying mutual fund shares. The reason, says a mutual fund manager, is that Merrill Lynch "can handle any trade you give it without blinking an eye."

• **Lush Take**—All these activities have meant big profits for Merrill Lynch. In its fiscal year ending last February, it earned a record $84.4-million. After deducting all expenses, the partners split $14.8-million, based on the proportion of capital they had in the firm.

In the first 10 months of the current fiscal year, the firm has earned more than it did in all of 1957. The profits it pays out to the partners will be the last to be subject to individual taxes. Next year, Merrill Lynch will pay corporate taxes on its profits. Then it plans to distribute a dividend to its shareholders, who will no longer have unlimited liability.

II. Why a Corporation?

The incorporation will bring other changes. Its partners, who will be the only shareholders, will take corporate titles—in most cases, vice-president—and elect a board of directors. The board is expected to nominate Smith as chairman and McCarthy as president of Merrill Lynch, Inc.

This is a relatively minor shift, because Smith and McCarthy are already in charge, and the partner-directors of Merrill Lynch's major divisions—administration, commodities, general services, operations, research, sales, and underwriting—form a definite nucleus for the board. The major difference is that instead of parceling out all its profits each year as required under a partnership, Merrill Lynch will be able to retain earnings for expenses and reserves against unforeseen contingencies.

• **Guarding Capital**—This is the main reason Merrill Lynch is incorporating. For it can insure the permanency of its capital, which now amounts to $41-million. It plans to issue voting stock to the working partners and non-voting stock to its limited partners, based on their current investment. Under a special agreement, no partner will be able to sell his shares except to the corporation. By being able to set aside reserves, Merrill Lynch will no longer face the threat of a loss of capital when a partner resigns or dies. It will have the funds to buy back the shares. This means, says Winthrop Smith, that "we'll be able to sleep nights."

Incorporating also means that Merrill Lynch can operate in a much more businesslike fashion. As it stands now, new partnership agreements have to be drawn up each time a change is made. And technically, at least, each partner is supposed to be consulted on any major undertaking. For a partnership the size of Merrill Lynch, this has

proved cumbersome and time-consuming. Explained one partner: "We were running a streamlined operation from a surrey with a fringe on top."

• **Long Campaign**—The incorporation is just one of the pioneering moves originally sponsored by the late Charles E. Merrill, who built Merrill Lynch. Attacking partnerships as "antiques," he finally won his battle in 1953, when the NYSE allowed broker-members to incorporate. But legal difficulties prevented an immediate change. Then, in 1956, Merrill died, and the settling of his estate brought further delay.

But this week, Merrill Lynch was informing its 450,000 clients of the change, a move which gives them an opportunity to switch brokers if they feel that the total liability undertaken by a partnership is more satisfactory. The firm is betting that not more than a handful will even consider making any move.

III. Successful Pioneering

In fact, Merrill Lynch expects to exploit the change. As the self-proclaimed pioneer of finance, it rarely misses an opportunity to sound its own trumpet, and by implication, to point out that its competition is behind the times.

This policy has paid off for Merrill Lynch. There is still a rock-ribbed aversion to change among some members of the financial community, but Merrill Lynch's success with its pioneering has stimulated change all down the line. The pickings have been good for practically all brokers since the end of World War II; Merrill Lynch, however, is steadily increasing its slice of an ever-growing pie. As against its present share of round lot volume on the NYSE of over 13% and on odd lot volume of almost 22%—in 1946, it had 10.3% of round lots, 12.5% of odd lots. And it handles 40% of all contracts made under the NYSE's monthly investment plan.

This showing is remarkable, considering the fact that all brokerage houses are engaged in the same business of buying and selling the same securities at the same commission rates. It proves there is a big difference between brokers. And Merrill Lynch's emergence as the giant of Wall Street is largely due to Charlie Merrill's insistence on being different from his competitors. In doing so, Merrill not only made big profits for himself and his partners, but played a major role in the rejuvenation of Wall Street.

• **To the Grass Roots**—Merrill made a fortune as an investment banker specializing in chain store financing. Then, in 1940, he began campaigning "to bring Wall Street to Main Street." By a succession of mergers, he got a network of

branches all over the U. S., from which he sought out the small investor.

A brilliant and unorthodox financier who was as much an individualist as a J. P. Morgan or a Jay Gould, Merrill was considered a heretic on Wall Street for this campaign. The financial community has always clung to a set of unwritten clublike rules. This clublike atmosphere, which the public trespasses at its peril, was much more marked in the past. But the vestiges remain.

• **Club Members**—Some brokers offer a highly personalized service, catering only to rich and sophisticated clients who are big speculators and know that losses, as well as gains, are all part of the game. Others provide little in the way of research or portfolio analysis except for a fee. Handling a great many small accounts and operating in full view of the public are still alien concepts to some firms.

The majority of brokers pride themselves on the character of their business and feel that public inspection is unnecessary. But the cult of secrecy does invite abuse. Some customer's men, who work on a commission basis, continually advise their clients to switch from one issue to another, without justification except to increase their own earnings. A few houses will subscribe to a new offering, then recommend it to customers, which often results in quick profits. And some brokers even try to stir up interest in a stock by passing along erroneous information.

• **Merrill's Way**—Merrill provided a clear-cut contrast. Abandoning Wall Street's penchant for tombstone ads, he launched a nationwide campaign offering free information and advice to all investors—large or small. He announced that Merrill Lynch customer's men—called AEs for account executives—would be paid salaries rather than commissions, forbade partners or employers to buy an offering until customers' orders were filled. And he published an annual report giving full details of the firm's activities.

The firm pioneered in other ways. It made full disclosure of its holdings; in fact, the firm no longer takes big speculative positions, although some partners take fliers. And it banned outside directorships for partners, except in a few special cases. For example, McCarthy is a director of Safeway Stores, Inc., which is headed by Merrill's son-in-law, Robert A. McGowan.

These policies helped renew interest in stocks as investments, gave the public confidence that it would get a fair deal. True, Merrill could not have succeeded without the spectacular growth of the economy and the sharp rise in personal incomes. But his innovation of selling to a mass market broadened the case of stock ownership.

Rival brokers pay grudging respect to

Merrill Lynch's pioneering. They acknowledge that its growth did not come about by accident, but because the firm filled a great gap by offering small investors the same facilities that were once the preserve of a select group.

• **Since Merrill**—Merrill Lynch continues to stress Merrill's policies. The only basic change it has made is to ignore his belief that the public wants "elimination of all expensive frills." Merrill Lynch now admits that some frills are necessary. But in all other respects, Merrill's policies are rigorously applied, so much so that they are considered orthodox by every securities house seeking a grass-roots clientele.

Until he suffered a heart attack in 1946, Merrill ran the firm as a one-man show. Then he began shifting responsibility to Smith, who had been associated with Merrill since 1916. Smith, says one associate, "put the different parts of the operation together and made them work." An innovator in his own right, he introduced much of the electronic equipment that has greatly increased the speed and accuracy of executing orders for customers. In addition, he has worked hard to maintain personal contact with the firm's employees, who have increased to 6,400 from 600 in 1940.

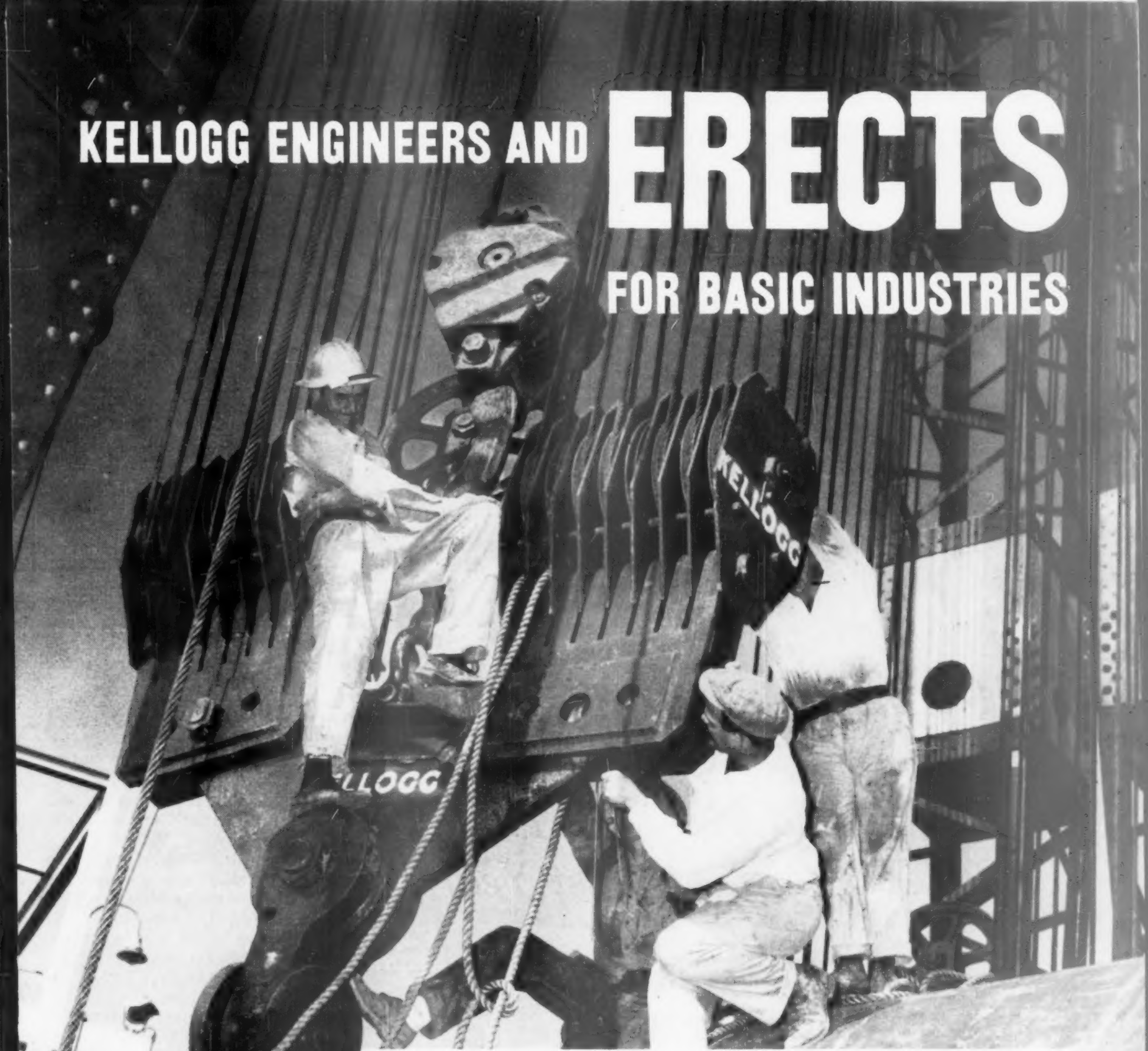
• **Enter McCarthy**—But Smith, now 65, is no longer able to devote full time to the firm. So McCarthy now occupies much the same role as Smith did after Merrill's illness. He is even more of a team man than Smith, regularly discussing policy changes with other partners, and checking with Smith on major decisions. But with Smith frequently away, McCarthy runs the firm.

The rise of McCarthy indicates Merrill Lynch's emphasis on sales. For unlike his predecessors, McCarthy did not come up as a Wall Street man. Instead, he got his training in the chain store field, came to the firm in 1940 when Merrill hired him away from Safeway to take over "backstage" overseeing—communications and other services. As a merchandiser, McCarthy is intent on improving the facilities available to customers.

Merrill Lynch's size has given it advantage in providing facilities. It can afford a mass of electronic equipment, which has gained it a reputation for the fastest executions in Wall Street. And it can give its AEs a great many supplements to help their sales efforts.

IV. Criticism and Rebuttal

But size may have some disadvantages. Some observers question whether Merrill Lynch lives up to its well-publicized claims. They argue that while the firm has opened the door to the small investor, it cannot give him personal attention. Instead, say the crit-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ics, the mass of material it offers to clients is too general to be of much value. For instance, its free portfolio analysis tends to be a "party line" job of cranking out pat solutions to investment problems.

Doubts are also voiced about the quality of the firm's research. According to some analysts, it is generally cautious and unoriginal in its stock selections. "Merrill Lynch never recognizes a market turn," says one competitor, "until it's past."

These criticisms have some validity. Late this summer, well after the market had begun its climb, the firm's Security and Industry Survey, which is the bible of its AEs, was warning that "caution is needed." It took a dim view of steel stocks and other cyclical groups—which moved up strongly.

• **Merrill Lynch's Side**—Merrill Lynch's research men admit they sometimes make mistakes but argue that their long-term record is good. They do not deny being conservative. On the contrary, they adopt a play-it-safe attitude simply because the bulk of the firm's customers are not speculators. Speculative advice is available, says one partner, "to anyone who asks for it."

But some speculations are taboo at Merrill Lynch, even if it means losing customers. It won't buy "penny stocks" for its clients and refuses to deal in Canadian issues that are not fully listed. The firm does trade in mutual fund shares, but it constantly tells its clients that they are paying "excessive" fees for management. Some mutual men feel that Merrill Lynch may someday change its tune and come out with a fund of its own. This, they say, would really be a test of its stock selections.

• **Wooing Small Investors**—As for the charge that small investors do not get the red carpet treatment, the evidence is mixed. Merrill Lynch is manifestly unable to give its customers the intimate counsel provided by some small houses. But the firm is continually courting the small investor with literature and advice, and its growing roster of accounts, particularly in the lower income brackets, suggests that it keeps them satisfied.

Certainly, whenever the firm recommends a stock, its AEs produce an enormous volume of orders. Normally, a Merrill Lynch recommendation will mean a sharp rise in the price of a stock, even one that is heavily traded. To keep the price from running away, the firm waits until the market is closed before issuing a recommendation.

V. Through the Ranks

The increased volume of business chalked up this year has been achieved without any large-scale expansion in branch offices. Only one new office, a

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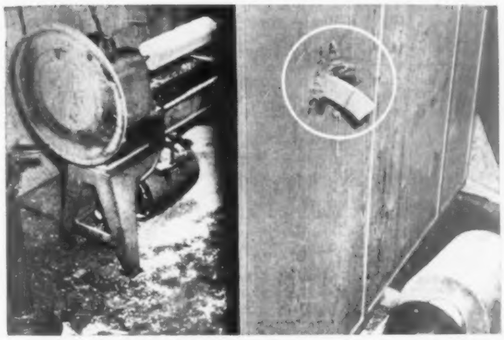

Saved: one life, thanks to this low cost fir plywood safety screen at Douglas Aircraft, California, which stopped a part hurled from a fast-spinning lathe only a few inches from a workman's head. Light weight plywood screens had been ordered in place by plant safety engineers as a precaution against just such accidents.

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second branch in Detroit, was opened. According to McCarthy, new branches have been held down because "we needed a breathing space for consolidation." He attributes Merrill Lynch's improved performance to a better effort by its "young and hungry" AEs.

Most of Merrill Lynch's 1,500 AEs are products of the training school operated by the firm. Ever since 1946, Merrill Lynch has paid promising applicants to take a six-month cram course on the securities business; it also has a two-year schedule for schooling junior executives. Both these programs have produced a steady flow of trained manpower that has made possible the firm's expansion.

• **Future Leaders**—The firm's AEs are bright, earnest, and public spirited—they're supposed to engage in charitable or civic affairs. These qualities are useful for developing a mass market of investors. But Merrill Lynch is also counting on the training school to provide the future leadership of the firm. According to McCarthy: "We want to promote from inside, from among the men who understand and can implement our fundamental policies."

McCarthy depends on the firm's branch managers, some of whom are partners, to spot the men with the best potential. He explains: "Nobody sitting in New York can mastermind 125 offices. We maintain close liaison, but we have to give our branches a good deal of responsibility."

Unlike other Wall Street brokerage houses, Merrill Lynch does not have its managers double as salesmen. Thus, they do not compete with the AEs on their staff, but instead feed them contacts and keep a close eye on their activities. The managers evaluate the performance of each of their AEs and have freedom to grant raises or bonuses; but any salary cut requires New York's approval.

• **Incentives**—A major problem at Merrill Lynch is convincing its young AEs that there is opportunity for advancement. To guard against the feeling that they are lost in the crowd, the firm brings its men into New York at regular intervals. These "merry-go-round" tours keep the AEs posted on new developments and offer top management a chance to look over their men.

As a corporation, Merrill Lynch will no longer be able to offer partnerships to its employees. But it promises to be just as liberal in inviting the most promising to purchase stock. Merrill Lynch has a profit-sharing plan and also provides cash bonuses—a Wall Street tradition it decided not to break. But though it appears to offer partnerships at the drop of the hat, its executives say they are very careful in choosing new prospects. "You need more than a good background and money to qualify," says one partner.

Under its new structure, Merrill Lynch is setting aside some unissued stock, which will be offered to candidates selected by a committee in much the same fashion that it chose its partners.

VI. How Big?

Now that the incorporation plan has ended Merrill Lynch's worries over its capital position, McCarthy will be able to concentrate on other problems. One question that always comes up concerns just how big the business can get. There is no fixed target for the future, but McCarthy considers that its present volume "is nowhere near the ceiling."

• **More Branches**—So Merrill Lynch is planning on increased growth. The consolidation process now going on will be maintained, but McCarthy says that more money will be spent on electronic equipment "as soon as we can find out what they do best," and he will continue to press for new branches. For the most part, Merrill Lynch will build up its chain of offices in metropolitan areas, but it is also considering branches in suburban shopping centers.

There is now one such shopping center branch—in Paramus, N. J. This was launched as an experiment, after the firm had unsuccessfully experimented with mobile trailer units. The Paramus office has been a money maker and will probably be followed by others.

However, McCarthy feels that the bulk of the business comes from street-floor offices in business districts. Many people, he says, like to meet their brokers face to face. And a good location also stimulates "walk-ins," which are an important element in acquiring new prospects.

• **Help From Earnings**—The retained earnings that Merrill Lynch can accumulate as a corporation will give it a better chance to plan a long-term growth program. One official explains: "Because we start our year off without any reserves, we wait to see how much we'll make before we spend. So the bulk of our spending on advertising, promotion, and branches always takes place near the end of the year. Now we can have a more consistent pattern."

McCarthy is a firm believer in spending on advertising and educational programs. The advertising budget this year amounts to $1-million and is slated to go even higher. In addition, the firm spends a great deal of money simply to inform the public about the intricacies of investment.

McCarthy thinks competition would help keep Merrill Lynch from being complacent. And he believes that as other Wall Street firms beat a path across the country, it will stimulate Merrill Lynch's growth. McCarthy says: "We've just begun to pioneer." **END**

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Detroit 26....G. Robert Griswold, Richard J. McGurk, Penobscot Bldg., Woodward 2-1793
Los Angeles 17.......Alfred L. Blessing, 1125 West Sixth St., Huntley 2-5450
New York 36....Harold E. Choate, Fred R. Emerson, John H. Glover, John F. Juraschek, Francis F. McAdams, A. T. Ofstie, John H. Stevenson, 500 5th Ave., Oxford 5-5959
Philadelphia 3....R. Bernard Alexander, Six Penn Center Plaza, Locust 8-4330
Pittsburgh 22.......John R. Thomas, Oliver Bldg., Express 1-1314
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Where SEC Forgot Common Sense

When Congress passed the famous Securities Act of 1933, the basic idea was to guarantee that ordinary investors would get the same information about a new issue as the company "insiders." This was a good principle then, and it's still a good principle. But in 25 years of administering the act, the Securities & Exchange Commission has gradually managed to rotate this basic principle until it is now standing on its head. And with the latest development of its policy, SEC actually is forbidding insiders to pass along to the public information they want to give out (page 28).

SEC is concerned—quite properly—about what it considers the "nonchalant" attitude of the securities business toward advance publicity for new offerings. At the annual convention of the Investment Bankers Assn. last week, SEC Chmn. Edward N. Gadsby read Wall Street a lecture on "gun jumping"—by which he meant talking up a new securities issue before formal registration had been filed with the commission. In doing so, he brought out into the open the increasingly tough attitude toward publicity of all sorts that SEC has been following for the past year or so.

In principle, this is all right. Both the issuers and the underwriters of new securities are legally and morally bound to follow the procedures set up by the Act of 1933. This means that they must do all their selling on the basis of a prospectus that meets SEC standards of accuracy and completeness. For the SEC to insist on this is no more than its simple duty.

But in practice, the commission's zeal has led it a long way beyond simple duty—or simple common sense, for that matter. As Chmn. Gadsby admitted in questioning after his IBA talk, SEC investigates the origins of any news story that concerns a company that has a new securities issue in the works. If it thinks that the story was part of a "selling effort," it is prepared to give the company a very rough time. And since the law equips the commission with wide discretionary powers to delay and object to new issues, the threat of its displeasure is no empty one.

Under the circumstances, company lawyers are simply advising any management that is considering a securities issue to keep its mouth shut. Even in cases where there is legitimate news that should be published, it is safer to keep quiet than to speak out.

The absurdity of SEC's position is evident in Gadsby's rather surprising confession that "it is no matter of concern to us if the financial press chooses to publish any of the rumors which, some true, some false, are as indigenous to Wall Street as is the odor of roasting coffee." For if SEC itself closes off news sources, the financial press has nothing left to publish but rumor.

No one familiar with the history of securities regulation in the U. S. has ever imagined that Congress intended to make SEC the sole channel through which information about new securities could be communicated to the public. Its job is to see that the basic minimum of information is circulated as widely as possible; it is not supposed to restrict information to that basic minimum.

It is obvious to us that SEC has overreached itself. In its concentration on the letter of the law, it has lost sight of the spirit. And so it finds itself in the ridiculous position of suppressing information instead of encouraging the "full disclosure" that is the heart of the law.

Plainly, it is time for the commission to take a long second look at its policies and practices in this area. We are sure that if it does, it will decide that somewhere back down the trail it parted company with ordinary good sense. If it doesn't, then sooner or later Congress will have the unwelcome job of redefining the area of the commission's power.

All's Fair—But

Russia's new Seven-Year Plan is so impressive, says the Moscow Literary Gazette, that American newspapers and publications—all but one—found their old worn-out methods of calumny were useless.

They were forced—with but one exception—to acknowledge the coming superiority of the Soviet.

The doubter, says the Literary Gazette, published an article that was slanderous, idiotic, and naive.

This blackmailer, moreover, invented a trick that outrages the Literary Gazette. The trick will get the Western Press out of its difficulties and it is just the thing Western journalists need to comfort public opinion in the trying days ahead.

The slanderer is, of course, **Business Week.** And the trick the Russian accuses us of inventing is the use of the word ***but*** or, equally horrendous, ***however.*** **Business Week** developed this weapon in first acknowledging that there is a huge increase in Soviet production ahead and then exclaiming ***but*** production of consumer goods will go up only 7.3% a year.

We on **Business Week** find ourselves a little touched by all this. We don't mind at all stepping up to take our place with Churchill, Eisenhower, and others who have been denounced by the Russians.

We do admit that we are a little surprised that such a mild and moderate article as ours can rouse a Russian to such passion. We can only answer: Sorry, comrade, ***but*** . . .